FINANCIAL TIMES

Europe's Business Newspaper — THURSDAY MAY 27 1993 — D8523A

Nato wavers over latest Bosnia peace initiative

Nato has not clearly endorsed the five-nation peace plan for Bosnia, although allies were said to be "pretty receptive" to the proposals. Les Aspin, US defence secretary, and Manfred Wörner, Nato secretary-general, said there were many "unanswered questions", including doubts over the definition of "safe areas", the type of forces required and the rules of engagement. Page 3

GM loses round one to Volkswagen: General Motors, US carmaker, lost a legal battle against Germany's Volkswagen after a Frankfurt court threw out its attempt to prevent former employees from working for Volkswagen. Page 23

Lamont fights his corner: The British government was threatened with a serious rift because of a behind-the-scenes battle over Norman Lamont's position as chancellor of the exchequer. Mr Lamont was said to be fighting hard to keep his job. Page 22

Peseta drops on rate cut rumours: The peseta finished sharply lower against the D-Mark amid speculation of further cuts in interest rates before the June 6 general election. The Spanish currency ended at DM77.85 from DM76.335 the previous day. Currencies, Page 40

Mandela struggles to keep talks on track: Nelson Mandela, president of the African National Congress, urged South Africans not to panic after the ultra-radical Pan Africanist Congress suspended participation in constitutional talks. "I'm sure that the democratic forces are strong enough to overcome this crisis," he said. Page 7

Delors makes plea for Europe: Jacques Delors, European Commission president, moved to relaunch the EC's drive towards deeper political and economic union. "We must try to recover the euphoria which was evident at the birth of the Community," he said. Page 22

US durable goods orders flat: US durable goods orders were flat in April and order backlogs shrank to the lowest level in 4½ years as manufacturing business contracted. Page 4

Swiss uneasy over airline link-up: The Swiss government has indicated unease about Swissair joining an alliance with three European airlines and has ordered the company to put forward alternative plans. Page 23

Republics haggle with Yeltsin: Leaders of Russia's republics will use their support for President Boris Yeltsin's proposed constitution to bargain for greater access to tax revenues and export earnings. Page 3

Hoechst in viscose merger: German chemicals giant Hoechst and Courtaulds, the UK group, have reached an agreement to merge their European viscose and acrylic fibres operations. Page 23; Lex, Page 22

Yen hits high against dollar: Japanese officials sought to quell speculation on foreign exchange markets about US support for a higher yen as the Japanese currency surged to a record Y108.65 to the US dollar. Page 6; Currencies, Page 40

Sharp, Japanese electronics and office equipment manufacturer, blamed a 37 per cent drop in parent pre-tax profits on the downturn in the Japanese economy and the appreciation of the yen. Page 25

EC banana quotas censured: A Gatt disputes panel has ruled that the EC's banana import regime unfairly limits Latin American exports. Page 4

Chinese dissident freed: Xu Wenli, one of China's longest-serving dissidents, was freed from jail after serving 12 years of a 15-year sentence. Page 6

Eros returns: London's landmark statue Eros, 100 years old next month, was returned to Piccadilly Circus after repairs costing £110,000 ($170,000). The statue was damaged two years ago by vandals.

Pier Giorgio Romiti: A photograph of Mr Pier Giorgio Romiti, managing director of Gilardini, Fiat's space division, was incorrectly used in some editions of yesterday's Financial Times in conjunction with a report of investigations by Milan magistrates into alleged corruption involving Fiat. We offer him our sincere apologies for any embarrassment caused by the error.

STOCK MARKET INDICES

FT-SE 100:	2846.9	(+8.2)
Yield	4.04	
FT-SE Eurotrack 100	1162.51	(-1.62)
FT-A All-Share	1409.5	(+0.8%)
Nikkei	20,895.99	(+284.23)
New York lunchtime		
Dow Jones Ind Ave	3516.91	(+0.28)
S&P Composite	448.21	(+0.49)

US LUNCHTIME RATES

Federal Funds:	3¼%	
3-mo Treas Bills: Yld	3.106%	
Long Bond	101¾	
Yield	6.886%	

LONDON MONEY

3-mo Interbank	5⅞%	(6%)
Life long gilt future:	Jun 104⅜	(Jun 104¾)

NORTH SEA OIL (Argus)

Brent 15-day (July)	$18.37	(18.47)

Gold

New York Comex (June)	$375.3	(378.7)
London	$375.45	(376.45)

STERLING

New York lunchtime:		
$	1.5405	
London:		
$	1.5455	(1.5425)
DM	2.5225	(2.5125)
FFr	8.4975	(8.4575)
SFr	2.26	(2.25)
Y	167.75	(168)
£ Index	80.3	(80.7)

DOLLAR

New York lunchtime:		
DM	1.6315	
FFr	5.4975	
SFr	1.462	
Y	108.75	
London:		
DM	1.632	(1.6285)
FFr	5.4975	(5.4825)
SFr	1.462	(1.459)
Y	108.6	(109.5)
$ Index	64.1	(same)
Tokyo close Y 108.65		

Austria	Sch30	Germany	DM3.30	Lux	LFr60	Qatar	QR12.00
Bahrain	Din1.250	Greece	Dr300	Malta	Lm0.60	S.Arabia	SR11
Belgium	BFr60	Hungary	Ft175	Morocco	MDh15	Singapore	S$4.10
Bulgaria	Lev20.00	Iceland	IKr190	Neth	Fl3.75	Slovak Rp	KSL45
Croatia	HRD5700	India	Rs40	Nigeria	Naira45	Slovenia	SLT220
Cyprus	C£1.00	Israel	Shk5.50	Norway	NKr16.00	Spain	Pta200
Czech Rp	Kcs45	Italy	L2700	Oman	OR1.50	Sweden	SKr15
Denmark	DKr15	Jordan	JD1.50	Pakistan	Rs35	Switz	SFr3.20
Egypt	E£4.50	Korea	Won 2500	Philippines	Pesos45	Syria	S£50.00
Finland	FM12	Kuwait	Fils.600	Poland	Zl 22,000	Tunisia	Din1.250
France	FFr8.00	Lebanon	US$1.25	Portugal	Esc215	Turkey	L7000
						UAE	Dh11.00

France sets out plans for sale of state assets

By Alice Rawsthorn in Paris

FRANCE's new centre-right government announced wide-ranging plans yesterday for an ambitious privatisation programme involving the sale of 21 public sector companies including the Renault motor group, Air France and the banks Crédit Lyonnais and Banque Nationale de Paris.

The proposals, intended to complete and extend the sale of state assets begun by the last conservative administration from 1986 to 1988, immediately ran into controversy when Mr François Mitterrand, the Socialist president, warned the weekly cabinet meeting that some companies should remain under state ownership to "protect the national interest".

Mr Edmond Alphandéry, economy minister and architect of the privatisation plan, described the proposed share sales as an "ambitious programme" that was central to the new government's efforts to create a "modern and sound economy".

The new proposals abandon the 20 per cent ceiling on foreign investment in privatised companies. Mr Alphandéry has also introduced initiatives to encourage individual share ownership and to persuade employees to invest in their own companies.

Mr Alphandéry did not specify how much he planned to raise from the sales, scheduled to start from September. The last centre-right government's privatisation drive involved selling 29 companies worth FFr120bn ($21.8bn).

Mr Edouard Balladur, prime minister, has already announced that the state hopes to generate at least FFr40bn by the end of this year to cover the new bond due to be launched next month to raise money to finance its job-creation scheme.

The names of those companies to be privatised first will be announced immediately after the privatisation legislation has been

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- France ties up the loose ends
- Lex Page 22

passed through parliament. Mr Alphandéry emphasised that the timing of individual sales would be determined by market conditions. There is no time limit for the new programme.

Analysts have voiced concern that the French government may find it more difficult to sell off its assets in the present recessionary climate compared with the buoyant economic environment of the mid 1980s.

One snag is the strength of the franc, which might deter international investors. Another is the sluggish state of the Paris stock market, which has been virtually static since the start of this year and yesterday was stable at 1,890.

The new privatisation candidates include 13 companies scheduled for sale by the last centre-right government. Among those are the two banks and three insurers – Union des Assurances de Paris, Assurances Générales de France and Groupe GAN – together with the Thomson electronics group, Bull computer company, Elf-Aquitaine oil group and Rhône-Poulenc chemicals concern.

Among others are Air France, Renault, the Usinor-Sacilor steel group and Aérospatiale, the aerospace concern, all previously considered too "sensitive" to be in the private sector.

However, stakes of more than 5 per cent in health, defence or security stocks will be subject to government approval.

Mr Alphandéry has also revived tha concept of the "golden share", whereby the state can vet shareholders and block takeover bids in certain privatised companies. The "golden share" has now been extended from five years to an indefinite lifespan.

Members of the German parliament walk to the Bundestag building after being flown in by helicopter to avoid demonstrators.

Germany ponders welfare in search for budget cuts

By Quentin Peel in Bonn

THE GERMAN government is considering politically explosive cuts in welfare payments such as unemployment benefit, and a new delay in the move of the German government to Berlin, because of the need to make drastic savings in its budget.

Mr Theo Waigel, the finance minister, has confirmed that the stormy issue of when and how the government moves to Berlin is under question once again as he seeks to cut DM20bn ($12.2bn) a year out of his spending plans for the next three years.

The government is considering delaying the start of any new government buildings in Berlin to 2000, instead of 1994 as planned. That would delay any serious move of the main government departments until well into the next century.

Mr Waigel is also putting back on the agenda a series of social spending cuts furiously opposed by the opposition Social Democrats and the trade unions.

The plan is to freeze most spending next year. That might mean no pay rises for civil servants.

Other targets on the hit list – needed just to keep the central government budget deficit down to DM70bn a year – include further cuts in defence spending, transport (including rail reform plans), and subsidies for returning German emigrants from Russia and eastern Europe.

The proposals have been put forward in internal working papers prepared by the Bonn finance ministry, and leaked yesterday in the German press.

Top of the cuts is unemployment benefit, with a reduction of 3 per cent proposed. That would save DM3bn a year. A similar cut in support for workers undergoing retraining – many of them in the former East Germany – would save another DM2bn.

An increase in unemployment insurance contributions by 0.5 per cent, instead of a planned decrease, could bring in an extra DM3.4bn a year.

The threatened delay in the move to Berlin has already provoked a predictable reaction from tha pro-Berlin lobby, fearful that the delay might become indefinite. Yet, given the narrow parliamentary majority for the move in the first place, it might prove a popular compromise.

Cuts in social spending are acutely sensitive, and may founder on the Social Democrats' majority in the Bundesrat, the upper house. Yet few doubt that welfare spending will have to bear much of the burden of acute budget stringency over the next few years.

Other possible savings include postponing increases in student grants and cutting the allowance for second children.

Chancellor Helmut Kohl has promised that pensions benefits will not be affected. But there is an expectation that pensions contributions will have to go up next year by as much as 2 percentage points to more than 19 per cent of salaries.

Pakistan's dissolved parliament is restored

By Farhan Bokhari in Islamabad

PAKISTAN'S Supreme Court yesterday restored Mr Nawaz Sharif to office as prime minister, apparently delivering a severe setback to President Ghulam Ishaq Khan, who dismissed him five weeks ago.

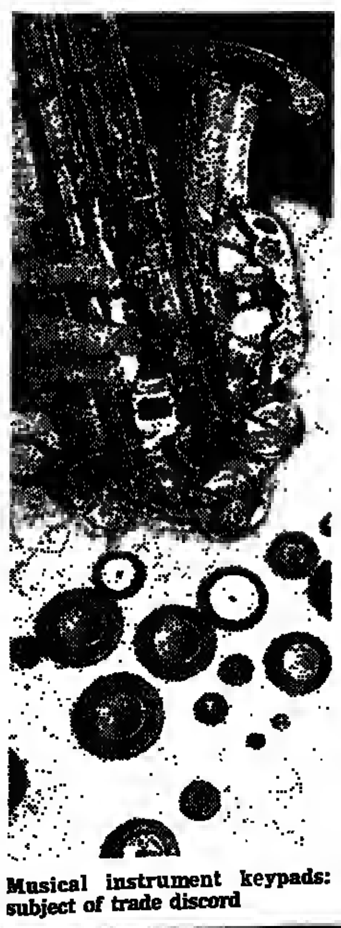
The National Assembly, the lower house of parliament, was also reinstated after being dissolved by the president. A presidential spokesman said that Mr Khan would honour the court's decision.

The judgment, supported by 10 out of 11 judges, came after a three-week hearing on a petition filed by Mr Sharif which challenged the presidential order.

"We hold that the order of 18th April 1993, passed by the presi-

Continued on Page 22
Democracy back on track, Page 6

Trade feud an unfinished symphony of sour notes



Musical instrument keypads: subject of trade discord

By Lisa Branston in Washington

THE Italian feud between the Prestinis and the Pisonis, being waged on US shores, is not about love or revenge.

It is instead a protracted trade dispute over access to the US market for the tiny leather or synthetic pads that cushion the movement of keys on woodwind and brass instruments.

This "dumping" case is small in avery way. It involves unit price differences of less than one cent, and the $200,000 market for keypads is the smallest ever to be disputed before a US trade body, according to one lawyer.

Mr Giuseppe Prestini, who makes keypads in Nogales, Arizona, has claimed for the last decade that Mr Luciano Pisoni exported keypads from his factory in Trento, Italy, for less than fair market value. Mr Prestini says his rival is trying to drive him out of business by claiming the one small portion of the US market that he still supplies.

In 1976, Mr Prestini's family closed its factory in Trento and opened one in Arizona. Several years later Mr Pisoni, who was the tool and die maker in Mr Prestini's old plant, set up his own shop, exporting keypads from Italy.

By 1983, exports were booming for Mr Pisoni, while sales dropped for his former boss in the US. So Mr Prestini took his troubles to the US government, asking it to find Mr Pisoni in violation of anti-dumping regulations.

The US Commerce Department ruled in 1984 that Mr Pisoni had sold keypads in the US for 1.16 per cent below fair market value. Ultimately, however, the finding was overturned after Mr Pisoni's lawyar, Mr Larry Klayman, argued that the discrepancy reflected exchange rate fluctuations.

Now for the second time in a decade Mr Prestini is charging Mr Pisoni with dumping in the US market.

The Commerca Department last week issued a preliminary finding that Mr Pisoni has sold keypads in the US for 1.26 per cent below fair market value, a margin of less than a cent, since the price of keypads ranges from 12 cents each for clarinets to 78 cents for saxophones.

The department must make a final determination by August 2, and the International Trade Commission must then find that the dumping injured the US maker for duties to be imposed.

Mr Klayman says the new case brought by Mr Prestoni is harassment. "The US government is being used again as a stooge to accomplish what Mr Prestini cannot do in the marketplace," Mr Klayman said.

CONTENTS

Balladur's jobs package averts rift

By David Buchan in Paris

FRENCH Prime Minister Edouard Balladur appeared yesterday to have forestalled, with his latest job-boosting plan, the first serious rift in his ruling coalition.

The prime minister, a RPR Gaullist, had come under criticism from Mr Valéry Giscard d'Estaing, president of the UDF centre-right party, for introducing too much austerity in his May 10 budget.

In particular, the former French president, who is not in the RPR-UDF coalition government but who is a contender for the presidency in 1995, tried to swing the UDF against Mr Balladur's proposal to increase the controversial CSG tax, a supplementary income tax hitting unearned as well as earned income, on July 1. Mr Giscard d'Estaing said the tax increase should be delayed until next year.

But Mr Balladur's announcement on Tuesday of a FFr40bn ($7.31bn) state loan, most of which will be spent on preserving jobs and accelerating housing and infrastructure, appeared yesterday to have silenced Mr Giscard d'Estaing. Mr Bernard Bosson, the UDF transport minister, disowned his party leader's criticism, expressing regret that most of the blows against the government should have come from within.

Yet, with presidential elections less than two years away, the prime minister runs a growing risk of being sniped at by the two most likely presidential contenders - Mr Giscard d'Estaing and Mr Jacques Chirac.

Both candidates for the Elysée will want to distance themselves from Mr Balladur's record if the latter fails to turn the economy around and push unemployment downwards.

Criticism from the Socialists of Mr Balladur's change of emphasis towards measures to create jobs has been muted by the fact that the prime minister is now vigorously pursuing some of their policies. Not only is he providing funding for 200,000 more places in Socialist-created work schemes, but his labour minister, Mr Michel Giraud, said yesterday that he would implement a law on redundancy procedures, passed by the Socialist government last December and criticised then by conservatives.

Commenting on Mr Balladur's proposal for a wage subsidy, Les Echos newspaper yesterday said that the government would have been critical if it had been applied by its predecessor. In cases where employees have agreed to take a wage cut in order to ward off the threat of layoffs, Mr Balladur has said the state will step in "temporarily" to make up the shortfall in wages.

A politician is kicked during a protest in Bonn over the parliamentary vote on tightening the law on asylum

Shareholders condemn Steinkühler

By David Waller in Stuttgart

THE FULL might of the German financial establishment yesterday united to condemn Mr Franz Steinkühler for the share dealing that led him to resign as leader of Germany's most powerful union, IG Metall.

At the annual meeting of Daimler-Benz, where Mr Steinkühler is a supervisory board member, Germany's biggest bank described his share trading as "totally unacceptable" and "massively lacking in sensitivity with regard to the problems of insider trading".

Mr Wolfram Freudenberg of Deutsche Bank, the biggest shareholder in Daimler-Benz, said the union leader did not have inside information when he bought nearly DM1m ($600,000) of shares in Mercedes Holding (MAH), a Daimler holding company, in the weeks leading up to Daimler's supervisory board meeting on April 2. The information about the proposed dissolution of MAH - which led to a sharp rise in the share price from which Mr Steinkühler benefited - was only known by a few, and not by the union leader.

However, Mr Freudenberg said that Mr Steinkühler had received confidential information about Daimler on March 25. "It is totally unacceptable that a member of the supervisory board should have dealt in MAH shares under such circumstances," he said. "In the interest of both the company and Germany as a financial centre, we simply cannot put up with this sort of thing."

The criticism was echoed by Mr Hans-Joachim Fonk, one of the two directors of MAH, which owns a 25 per cent stake in Daimler. MAH and Deutsche Bank said they would not vote to approve the reappointment of Mr Steinkühler to the Daimler supervisory board. Although he was a trade union official, Mr Steinkühler's position on the board was held in a personal capacity. He has not yet offered to resign, but is unlikely to stay.

The circumstances surrounding the MAH announcement are being investigated by the Insider Commission of the Frankfurt Stock Exchange.

IG Metall yesterday confirmed that Mr Steinkühler had owned shares in AEG, the electrical group now owned by Daimler, in 1985. The union leader had denied any such ownership when he was accused last week of having bought them just before Daimler confirmed its takeover.

It is lonely at the top for Fiat's Agnelli

By Robert Graham in Rome

ON HIS pedestal as chairman of the Fiat group, Mr Giovanni Agnelli has become a lonely man.

In recent months, 12 Fiat group executives have been implicated in allegations concerning illicit payments to Italy's political parties to obtain contracts and favourable treatment.

Now the investigations have reached just one notch below him - Mr Cesare Romiti, his faithful long-standing chief executive. Milan magistrates have placed Mr Romiti on the list of persons officially under investigation.

The Milan magistrates want to cross-check evidence voluntarily provided by Mr Romiti against testimony of Fiat executives already arrested. The magistrates are understood to be anxious to check whether Mr Romiti himself was directly involved in contacts with politicians and to clarify details about the use by Fiat of overseas funds paid illicitly through a Swiss bank.

The involvement of Mr Romiti - and more directly that of Mr Giorgio Garuzzo and Mr Francesco Paolo Mattioli, respectively the group's chief operating officer and chief financial officer - raises the awkward question of how much the chairman himself knew of these illegal transactions.

Within the group, executives say Mr Agnelli was not concerned with the daily running of the group and its 1,300 companies. As such he was unaware of the extent of Fiat being a party to the system of bribes until around April this year. When he did, they say, he immediately went public on April 17 with a speech at Venice admitting Fiat had erred.

This then led to Mr Romiti's appearance before the Milan magistrates and a complete *volte face* in the group's previous stance of non-cooperation with the judiciary. Fiat also hastily approved a new code of business ethics for the group.

One of the team of Milan magistrates admitted this week that Fiat's evidence, combined with that provided by Mr Carlo De Benedetti, the Olivetti chairman 10 days ago, has unlocked the main keys to the illicit system of financing the political parties. This appeared to go some way towards exonerating Mr Agnelli.

The 72 year-old Fiat chairman is on record as saying that when the first group executive was arrested in May 1992, Mr Enzo Papi, the managing director of the construction arm Cogefar-Impresit, he understood this was an isolated instance with at best one or two other cases.

However, this suggests that there was no attempt to conduct an inquiry at a senior level until nearly a year later. During this time a number of Fiat executives had already spent considerable time in jail before agreeing to talk to the authorities.

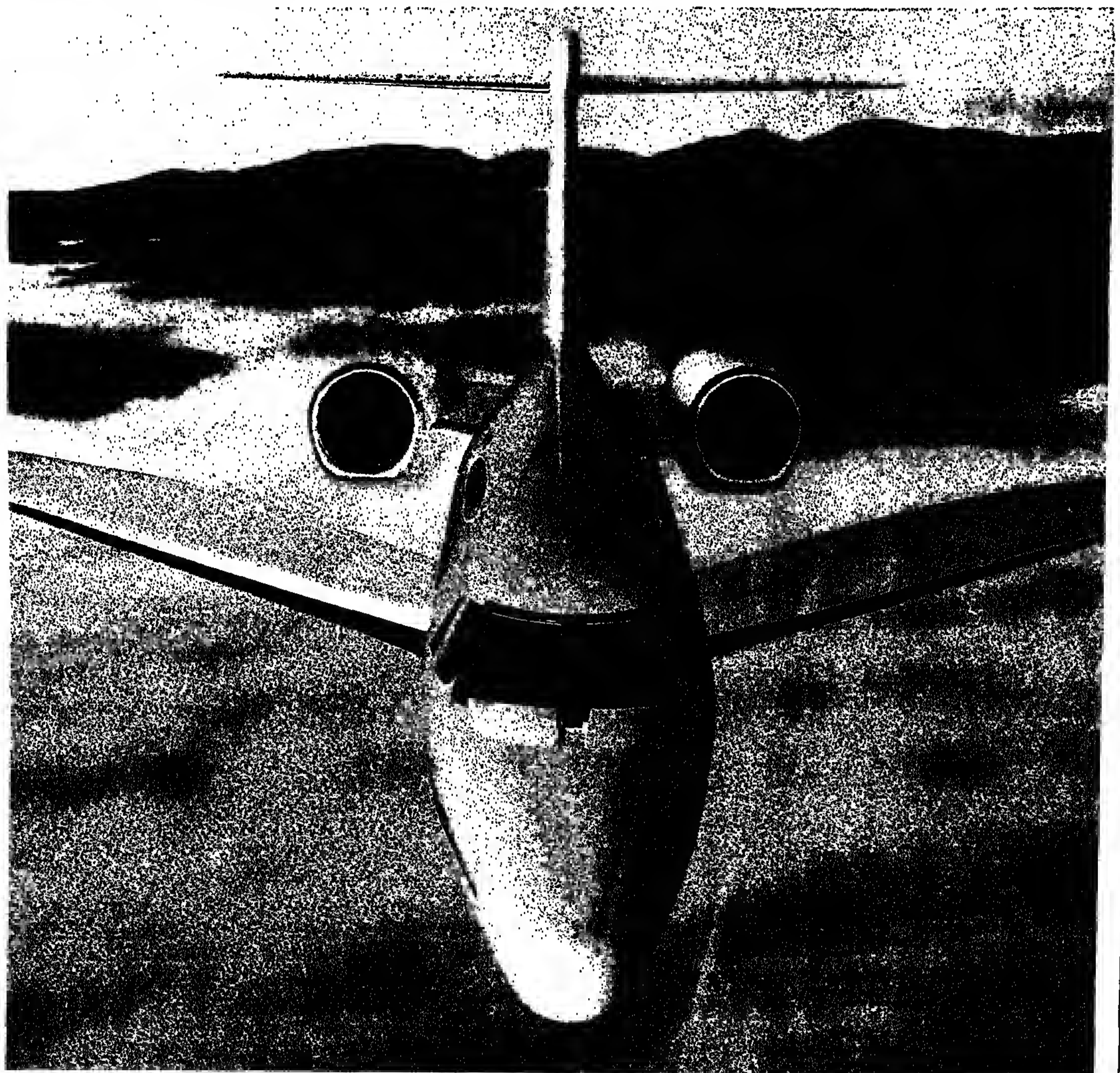
It also suggests that Fiat's top management either preferred to ignore the growing wave of evidence of widespread corruption coming to light from last autumn onwards, or adopted a policy of sitting tight.

In either case the image of the group has suffered, as has that of both Mr Romiti and Mr Agnelli. As commentator Massimo Riva wrote yesterday in the newspaper La Repubblica: "Dealing with Fiat one writes Cesare Romiti but one must read in for this Giovanni Agnelli, the man who is the real symbol and incarnation of economic power, the standard bearer of the Italian industrial system, the oracle to whom a good part of the country turns to decide the course of their investments and consumer habits."

There is indeed the question of why Fiat - through its enormous influence in Confindustria, the industrialists' confederation, and through Mr Agnelli's unparalleled prestige and personal contacts as well as ownership of one national newspaper, La Stampa, and shares in another, Corriere della Serra - did not denounce earlier a system of bribery which had got out of hand.

The uncomfortable answer would appear to be that Fiat grossly underestimated the cancer of corruption in the system and at the same time found it convenient to play along with the extortionate game of the politicians.

Giovanni Agnelli: 'oracle'



Peseta in sharp fall against D-Mark

By Peter Bruce in Madrid

THE SPANISH peseta, devalued by 8 per cent in the exchange rate mechanism of the European monetary system earlier this month, fell sharply against the D-Mark yesterday as nervousness about the outcome of the June 6 election returned to the markets.

The currency fell 155 basis points during the day to close at Pta77.85 to the D-Mark, the lowest it has traded since the devaluation - the third in nine months - on May 13.

Dealers said a forecast of further interest rate falls, following Tuesday's small benchmark cut, by Mr Carlos Solchaga, the finance minister, had helped weaken the peseta, along with market suspicions that the Bank of Spain had been buying D-Marks in order to replenish its reserves.

But the movement yesterday raised the spectre of one further attack on the currency before the election, especially as the opposition Partido Popular, which may now be opening up a clear lead in opinion polls over the governing Socialists, has consistently refused to make any clear statement on its economic policy plans.

That has left markets worrying about remarks by PP leaders calling for quick interest rate cuts of up to four points while at the same time displaying a less than convincing commitment to holding the peseta inside the EMS.

Polls taken after a televised debate between its leader, Mr José María Aznar, and Prime Minister Felipe González show that more than 50 per cent of the country gave the debate to Mr Aznar and that the debate swayed a large number of undecided voters to the conservatives.

THE FINANCIAL TIMES
Published by The Financial Times (Europe) GmbH, Nibelungenplatz 3, 6000 Frankfurt am Main 1, Germany. Telephone 49 69 156 850, Fax 4969 5964481. Telex 416193. Represented by Edward Hugo, Managing Director. Printer: DVM Druck-Vertrieb und Marketing GmbH, Admiral-Rosendahl-Strasse 3a, 6078 Neu-Isenburg 4 (owned by Hürriyet International).
Responsible Editor: Richard Lambert, c/o The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL, UK. Shareholders of the Financial Times (Europe) GmbH are: The Financial Times (Europe) Ltd, London and F.T. (Germany Advertising) Ltd, London. Shareholder of the above mentioned two companies is: The Financial Times Limited, Number One Southwark Bridge, London SE1 9HL. The Company is incorporated under the laws of England and Wales. Chairman: D.C.M. Bell.
FRANCE
Publishing Director: J. Rolley, 168 Rue de Rivoli, F-75044 Paris Cedex 01. Telephone (01) 4297-0621, Fax (01) 4297-0629. Printer: S.A. Nord Eclair, 15/21 Rue de Caire, F-59100 Roubaix Cedex 1. Editor: Richard Lambert. ISSN: ISSN 1148-2753. Commission Paritaire No 67808D.
DENMARK
Financial Times (Scandinavia) Ltd, Vimmelskaftet 42A, DK-1161 CopenhagenK. Telephone 33 13 44 41, Fax 33 93 53 35.

NEWS IN BRIEF

EC jobs plan aims to halve unemployment

THE European Commission yesterday unveiled a job-creation strategy which it hopes will help halve unemployment in the EC by the end of the century, writes Andrew Hill. At the same time, Mr Padraig Flynn, EC social affairs commissioner, reaffirmed that the Commission was fully committed to the setting of minimum social standards across the EC. "The social dimension [of EC policy] is up and running," said Mr Flynn, who denied that Britain was gaining any economic advantage by opting out of the social protocol of the Maastricht treaty.

The EC-wide "framework for employment", agreed by the Commission at its meeting in Strasbourg, aims to improve the Community's comparatively poor record on employment. Mr Flynn pointed out that only 60 per cent of the EC workforce was employed, against 70-75 per cent in Japanese, US or Scandinavian economies. He said economic growth alone would not be enough to reduce the 17.4m EC jobless total. He said 9m jobs were created in the EC by the booming economy of the mid-1980s, but unemployment fell only 3m.

The Commission proposes that member states should co-ordinate action, for example by encouraging employees to adapt to different types of job and practices – such as job-sharing – and "investigating the scope for reducing labour costs".

New premier for Bavaria

Edmund Stoiber, the Bavarian interior minister, was yesterday nominated by the ruling Christian Social Union group to take over as state premier, after Mr Max Streibl announced his long-awaited resignation, writes Quentin Peel from Bonn. Mr Streibl had admitted accepting free holidays from a business friend.

Norway faces confidence vote

Norway's minority Labour government may face a vote of confidence on June 8 over its handling of the collapse last autumn of Uni Storebrand, the country's biggest insurance group, writes Karen Fossli in Oslo.

The Conservative and right-wing Progress parties yesterday agreed to table a proposal in parliament in which they will seek to unseat Mr Sigbjoern Johnsen, the finance minister. They say if they succeed in winning majority support for the proposal it could force the resignation of the government.

Backing for Swedish budget

Sweden's centre-right minority government yesterday finalised a deal with the opposition New Democracy party which ensures broad parliamentary support for the supplementary budget proposals which it announced last month, writes Christopher Brown-Humes in Stockholm. The government has agreed to scrap personal allowances for higher rate taxpayers and to reduce VAT on hotels and internal travel as part of the agreement.

In return New Democracy has said it will vote for a plan to cut housing benefits by SKr3bn over three years. The reduction is part of a broad package of savings designed to reduce Sweden's SKr200bn budget deficit.

Republics in bid for more tax revenues

By Leyla Boulton in Moscow

THE LEADERS of the Russian Federation's constituent republics will use their support for President Boris Yeltsin's proposed new constitution as a bargaining cbip to secure greater access to tax revenues and export earnings, it emerged yesterday.

Yeltsin: "constitution would limit powers of the centre"

Mr Yeltsin told a meeting of republican cbiefs yesterday tbat the new constitution would limit the powers of the centre, giving republics more rights but also more responsibilities. His spokesman said republican leaders had signed up to a gentleman's agreement not to alter significantly the president's constitutional draft.

in a related move tbe 21 republics – Chechnya was tbe only one to stay away – plan to meet next month to agree measures to implement a new federation treaty in parallel to a constitutional convention, whicb opens on June 5 to adopt the new constitution.

Mr Vladimir Shumeiko, first deputy prime minister, said the president would soon publisb a decree on ways of implementing the federal treaty, including details of revenue sharing responsibilities between tbe regions and the centre. The treaty was signed last year but Russia's 89 repnblics and regions have complained that it has not been implemented.

A federation treaty is badly needed to give the state a more orderly structure, but part of the problem in implementing it has been very different concepts of what would constitute a fair division of power and wealth with Moscow.

Mr Yeltsin will have to balance the interests of poorer regions whicb need central government subsldies, wbile retaining enough control over economic policy to push through reforms.

Nato wavers over Bosnia

By David White in Brussels

NATO yesterday failed to provide a clear endorsement of the latest five-nation peace plan for Bosnia, although Mr Les Aspin, US defence secretary, said most allies were "pretty receptive" to the proposals.

Mr Aspin and Mr Manfred Wörner, Nato secretary-general, said there were many "unanswered questions" about the joint action programme agreed in Washington at tbe weekend, particularly about its proposals for safe areas. They said the UN Security Council had to make the next move.

Questions raised by Mr Wörner included the definition of safe areas, the kind of forces required and their rules of engagement.

Mr Aspin said the military option on which the US earlier failed to gain allied support – a lifting of the arms embargo to Moslem-led Bosnian government forces and air strikes – was still available.

"In the end it may be that we end up going back to that option," be said.

After criticism of the new plan by Germany and particularly Turkey, Mr Aspin admitted that "not everybody was consulted equally". However, he said he believed the plan would be implemented. He strongly denied it implied abandoning the aim of a wider political settlement.

"Bnt it does move towards stopping the killing first," he said.

A communiqué issued after a two-day defence ministers' meeting here conspicuously avoided giving axplicit approval to tbe joint action programme, saying only that it had been discussed.

Tbe meeting underlined Nato's concerns about the allies' ability to provide forces for new peacekeeping or peace enforcement missions amid continuing defence cuts.

Mr Wörner said countries needed to invest in properly-prepared forces and it was "the duty of the hour" for allies to stabilise their defence spending.

However, Mr Wörner angrily contested accusations that the alliance had proved ineffective in responding to the Bosnian crisis.

Nato should not be blamed for any lack of political will, he said. It was prepared to do more but could not act unless it was mandated to do so by the UN.

"It makes no sense to accuse Nato because everybody knows it is the United Nations and not Nato that handles this crisis," Mr Wörner said.

But be warned that if the international community failed to deal successfully with the conflict it would damage all international organisations, Nato included.

British mercenary "Colonel" Philip Norris, fighting alongside Moslem forces in Mostar, runs for cover during an attack by Croatian snipers in a firefight yesterday

Karadzic spurns UN plan for war crimes tribunal

By Kerin Hope in Belgrade, Michael Littlejohns at the UN in New York and Robert Mauthner in London

MR Radovan Karadzic, the Bosnian Serb leader, yesterday said he wonld refuse to co-operate with an international tribunal being set up by the United Nations to investigate war crimes in the former Yugoslavia.

"We would not deliver anyone accused of war crimes to this form of justice," he said. "This is an attempt to choose sides and to prociaim one side guilty."

Early yesterday the UN Security Council agreed unanimously to establish an international tribunal to hear charges of war crimes, including ethnic cleansing, murder, rape and torture in former Yugoslavia.

It will be the first such body since tbe Nuremburg and Tokyo courts were set up at the end of the second world war. But unlike those tribunals, the 11-member UN court will not be empowered to impose death sentences.

While it will sit in The Hague, home of the international court of justice, the tribunal is expected to hear cases in countries closer to former Yugoslavia.

Bringing the accused to justice may not be easy and it is likely to be some time before the first case is heard. A commission set up by the Security Council is collecting evidence of atrocities. Serbs, Bosnians and Croats have ali been accused of violations of international humanitarian law.

Meanwhile, in Sarajevo yesterday Mr Thorvald Stoltenberg, International mediator on Bosnia, held talks in an attempt to persuade the Moslem-led Bosnian government to accept the Wasbington accord to contain the fighting.

Mr Alija Izetbegovic, Moslem president of Bosnia, rejected the accord, saying it would allow Bosnian Serbs to keep territory they seized.

In London, Mr Donglas Hurd, UK foreign secretary, yesterday said the Vance-Owen plan for Bosnia was not "immutable" and that it could probably not be brought about "in one giant step".

Fyodorov bares all on Russia's economic woes

By John Lloyd in Moscow

THESE are the days of living dangerously in the Russian economy, but they are also the days of unusual candour, at least as far as Mr Boris Fyodorov, Russia's deputy prime minister in charge of the economy, is concerned.

On Tuesday nigbt be delighted and awed Russian and foreign economists with a candid snapshot of life in the upper echelons of the Russian government.

He admitted, for exampla, that everyone "apart from poor people on the street" was shifting ont of ronbles into dollars, legally and illegally, and acknowledged that "I would do the same".

The government was "failing in its public duty" to protect people and their currency, and when it took two months to effect a money transfer in roubles and a day or two in dollars, lawlessness was perfectly understandable. "We have a very small stick, and no carrots," he added.

Mr Fyodorov was breathtakingly self-confident. He disclosed that today be will propose to the cabinat that no promises for extra expenditure be honoured by the government. That would stop politicians, including President Yeltsin, from making populist gestures in an election campaign sure to be forthcoming.

Mr Fyodorov clearly identified the government's lax populism as being more dangerous than the parliament.

"It's not so bad," he said of the parliament, which is public enemy number one as far as Mr Yeltsin is concerned.

The government is, according to Mr Fyodorov, riven with dissension. Even within his own ministry ha spends much of his time "stopping people putting forward proposals the opposite of those I am fighting for".

One of the most valuable pieces of advice he bad received, be said, was from Professor Jeffrey Sachs, the government adviser from Harvard University, to the effect that any agreement reached had to be signed on the spot. Mr Fyodorov says he now gets central bank officials to sign any deal as soon as it is reached.

'We have a very small stick, and no carrots'

Though he hailed the recent agreement between the government and the central bank which will allow the government access to the first \$1.5bn (£972m) tranche of the \$3bn "systemic transformation facility" put up by the IMF, he clearly does not trust Mr Victor Gerasbchenko, central bank chairman, to fulfil it. "It is a gentleman's agreement," be said. "Let's see how many gentlemen there will be in the central bank" – recalling that Mr Gerashchenko had recently said that be [Mr Fyodorov] would soon "crawl to him" for more credits.

Mr Fyodorov does not believe in greater economic integration in the Commonwealth of Independent States.

"Yon cannot believe in a unlon like this. So far I have not seen any documents which say that there is any economic integration... I welcome with pleasure the introdnction of new currencies. We are pretending there is a rouble zone when in fact there is none."

State sell-off 'disappointing'

By James Blitz, Economics Staff

PRIVATISATION of Russia's small and medium-sized enterprises has been disappointing in terms of its effects on companies' management structures and business operations, according to a report issued yesterday under tha auspices of the UK Treasury.

The report, compiled by KPMG Management Consultancy and Heriot-Watt University, says 46,000 medium-sized enterprises had been officially privatised by January of this year, including 6 per cent of Russia's shops and 5 per cent of its restaurants.

But the report's authors discovered that the act of privatising a company had, in most cases, amounted to little more than a technical liberation from state control. The report says privatised enterprises retained the same management structures and personnel as had existed under the Soviet regime, and indulged in little new investment or restructuring.

Most work collectives opted for sale of shares in a joint-stock company, with 51 per cent control going to management and employees. But surveying enterprises in Moscow, Volgograd and Nizhny Novgorod researchers discovered that workers and management did not use this as an opportunity for change.

"The prevailing attitude was one of defending the status quo, particularly employment and welfare provisions."

A Study of the Russian Privatisation Process, available from HM Treasury, Whitehall, London SW1.

NEWS: THE AMERICAS

White House follies upstage Bosnia and the budget

By Jurek Martin, US Editor, in Washington

EXPENSIVE presidential haircuts by Belgians called Christophe and cancelled $15,000 (£9,740) breakfasts for lobbyists, even the shenanigans in the White House travel office, could be dismissed as perfect "silly season" stories. Except for the fact, which is unfortunate for Bill Clinton, that a combination of the budget, on which the House votes today, and Bosnia make this far from a silly season.

Earlier this week, George Stephanopoulos, the communications director of the modish coif, ruefully admitted that "clearly last week did not go as planned". His boss blithely claimed the reverse was the case, because the Ways and Means Committee had agreed a budget bill to his liking, though it actually did so nearly two weeks ago. He did not adduce the latest Bosnian agreement as evidence of "a good week".

Of the three incidents, "Travelgate" threatens to have the longest shelf-life, but all three, in the opinion of the president's growing army of critics, demonstrate that something is seriously amiss with Mr Clinton's sense of what is right and the White House's perception of what is wrong.

The on-board haircut that kept Air Force One on the ground at Los Angeles airport for an hour is seen as a mistake because it showed the president had lost his common touch, not least with the airline commuters he may have inconvenienced. Worse, in the eyes of Washington, it was further evidence that he had fallen under the sway of Hollywood, whose stars all have "personal contracts" with hairdressers, face-lifters and individual trainers and frequently these days seem to be occupying the Lincoln bedroom in the White House.

The Democratic party fundraising breakfast for lobbyists seemed similarly insensitive, since the president is supposed to be intent on curbing their influence and cutting down on their tax deductions.

Travelgate is altogether messier because it involves, in no particular order of importance:

● The summary dismissal of career employees accused of mismanagement but denied the right of appeal: the humiliating *volte face* on Tuesday night, apparently rescinding the firing of five of the seven, but without restoring their jobs, merely

● The misuse of the FBI, called into investigate without the prior approval of the agency's ultimate chief, Janet Reno, the attorney general, who, being Janet Reno, has made her discontent about its politicisation public and extracted an apology from the White House.

● Nepotism, because a distant cousin of the president from Arkansas, who did a lot of travel work for his campaign, wrote a memo in February explaining how the travel office could be better run, and volunteered herself for the task.

● Hollywood again, with cronyism added, because Harry Thomason, the Clinton friend and Los Angeles-based TV producer, has interests in the airline charter business which, in turn, complained about not being able to bid for White House press flight cootracts.

The extent of Mr Clinton's personal knowledge of any and all of the above is in doubt, though sooner or later he will be asked what he knew and when he knew it. So far he has confessed only to a general awareness.

But this is hardly the point, for he is the man in charge of the White House staff and it is in the hottest of waters, a mere three weeks after it was supposedly shaken up and down and reinforced by the arrival as deputy chief of staff of Mr Roy Neel, Vice President Al Gore's veteran and politically smart adviser.

The fundamental lack, a common argument goes, is that there is no one in the White House with the clout to say to the president, "This is wrong", or "Have you considered the political fallout?" Thomas "Mack" McLarty, the chief of staff, does not seem able to do this; Bernard Nussbaum, the legal counsel not long out of Wall Street, could apparently see nothing wrong with inviting the FBI in for help; even Mr Stephanopoulos himself, with supposedly sharp political antennae, did not see the danger signals.

Mr Gore went on TV to deny charges that the White House is too stuffed with the young and politically unsophisticated. "We've got a lot of veterans," he insisted. But former presidential candidate Paul Tsongas was closer to the prevailing wisdom when he said Mr Clinton "needs a few greybeards around him".

Though far from grey, it may be significant that his sharp campaign crew, James Carville, Paul Begala, Mandy Grunwald and Stan Greenberg, are being sighted more around the White House these days. It was, after all, Mr Carville who posted up the immortal placard, "It's the economy, stupid", to keep the Clinton campaign team's minds focused.

But it is also true that Mr Clinton consciously set up this White House to his own liking. They are his sort of policy people and, collegial though their working environment may be, they do defer to him because they are in awe of his intellect and application. Therefore their faults are seen as extensions of his.

And it could not have come at a worse time. Perhaps it has provided some cover for the difficulties the administration has in explaining its Bosnian policies, but, domestically, it has distracted far more from the overriding order of business, which is to get the budget package through Congress.

A president who is considered fair game by the press can become dead meat at the hands of Bob Dole, Sam Nunn, and half a dozen others at the other end of town who probably think they can do the job better.

Christopher reasserts US world role

By Jurek Martin

MR Warren Christopher, the US secretary of state, asserted yesterday that "the need for American leadership in the post-cold war world remains undiminished" and that the US stood "prepared to act decisively to protect our interests wherever and whenever it is necessary".

But, in a separate television interview, he argued that the US must limit its involvement in Bosnia or risk an "indefinite" military commitment. Americans, he said, had little enthusiasm for involvement "in a humanitarian crisis a long way from home in the middle of another continent".

His comments, backed by similar statements about US leadership from Ms Dee Dee Myers, the White House press spokeswoman, appeared intended to counter a speech given on Tuesday by an unidentified senior State Department official, believed to be Mr Peter Tarnoff, undersecretary for political affairs.

This off-the-record speech to journalists emphasised the primacy of US economic interests and the limits of US resources. US foreign policy must be "commensurate with these realities," and "may on occasion fall short of what some Americans would like and others would hope for," he said.

Mr Christopher, under fire as the architect of the policy that opposes a US military presence in Bosnia, insisted to the Washington Post that "there is no derogation of our powers and our responsibility to lead". But, he said in a clear reference to the Balkans, "in some situations we will try to involve other countries – we would not remain a superpower for long if we have to do everything on our own".

But his dismissive reference to humanitarian issues in Bosnia also runs counter to one of the administration's basic foreign policy principles. In another indication of this apparent ambivalence this week the US made available an additional $30m (£19.4m) to the UN High Commissioner for Refugees, but Mrs Sadako Ogata, the commissioner, had been unable by midday yesterday to secure a session with Mr Christopher or President Bill Clinton.

Mrs Ogata is also understood to be personally upset by a deal struck between Mr Christopher and Mr Boutros Boutros Ghali, UN secretary-general, under which she loses her current American deputy.

Guatemala president moves to tighten control

By Edward Orlebar in Guatemala City and Stephen Fidler in London

THE Guatemalan government yesterday moved to tighten its control over the country, a day after President Jorge Serrano suspended the constitution and closed down Congress and the Supreme Court.

Although Mr Serrano said early on Tuesday that his move would not affect freedom of expression, the government was yesterday controlling radio and television broadcasts. It has sent censors to monitor newspapers, while police surrounded the offices of the two largest morning papers.

Opposition to Mr Serrano's action came from inside and outside the country. Mr Mario Solorzano, the minister of labour and a vice-president of Socialist International, resigned in protest at the moves.

He said the president had removed the possibility of reaching peace in Guatemala and that he believed it would no longer be possible for international financial institutions to continue support for the government.

Foreign ministers of the Organisation of American States are expected to meet in Washington on June 3 over Guatemala, following condemnation of the move by the US and almost all Latin American states, except for Peru.

Mr Serrano, whose action is seen as emulating Peruvian President Alberto Fujimori's so-called "self-coup" in April 1992, said he was thinking of telephoning Mr Fujimori.

A suspension of lending from international financial institutions could follow the OAS meeting.

The government has a 15-month standby arrangement with the International Monetary Fund which started last December, although the government has not drawn the $54m available under the programme. Loans for the country from the World Bank and the InterAmerican Development Bank, which has $110m of loans awaiting approval in the second half of the year, could be jeopardised.

Soldiers yesterday surrounded the offices of a large union umbrella group. Mr Alberto Villar, a committee member, said yesterday that his members would discuss the possibility of calling a nationwide protest.

The human rights ombudsman, Mr Ramiro de Leon Carpio, came out of hiding to protest at the move.

"The president doesn't have constitutional, legal or moral rights to take the measure he did," he told journalists. He called on different sectors of society to put pressure on the regime to reverse its measures.

A spokesman at the British Foreign Office said the events in Guatemala had not led the government to rethink its decision to remove its garrison of 1,400 troops in neighbouring Belize. Guatemala has long claimed Belize, but a peace settlement resolving the territorial dispute agreed by Mr Serrano awaits ratification.

Anti-riot forces guard the National Congress doors

A Guatemala City protester yells anti-Serrano slogans

Durable goods orders flat in US

US durable goods orders were flat in April, the Commerce Department said yesterday, and order backlogs shrank to the lowest level in 4½ years as manufacturing business contracted, Reuter reports from Washington.

The unchanged orders total last month followed a revised drop of 3.7 per cent in March, previously reported as 3.4 per cent. The figure was much weaker than expected by Wall Street economists, who had forecast a 1.4 per cent rise in orders.

April orders had been expected to rebound from March, when severe weather hampered production in a number of industries. But the Commerce Department report showed not only unchanged order volume but also fewer shipments of finished products.

Total new orders in April were worth $130.3bn (£84.6bn). Orders for defence goods, which experience wide monthly swings, rose by 2.9 per cent last month after 8.8 per cent in March. If defence is excluded, overall orders in April fell by 0.1 per cent after decreasing by 4.3 per cent in March.

"I found it to be a mildly disappointing report," said Mr Dana Johnson, vice-president and economist at First National Bank of Chicago.

NEWS: WORLD TRADE

Delors makes services deal new Gatt priority

By Lionel Barber in Brussels

MR Jacques Delors, European Commission president, yesterday signalled a new flexibility in the Gatt global trade talks, urging all sides to agree to liberalise services such as banking and insurance.

The call marks a shift in emphasis since, six months ago, Mr Delors was outspoken in his defence of European farm interests in the Uruguay Round. The new focus on services echoes long-standing US and British arguments that the EC – and particularly France – should pay less attention to agriculture.

Mr Delors' remarks came in a speech to the European parliament in Strasbourg, and reflect his concern about rising unemployment in the EC and the Community's diminishing competitiveness.

Delors: switch of emphasis

In his speech, Mr Delors noted that between 1970 and 1990 the US had created 29m jobs, Japan 11m, and the EC 8.8m. "We need to think about that – and to underline [our] interest in a Gatt agreement."

The Commission president, who has ordered a study of Europe's competitiveness and the unemployment crisis, recalled that services made up half of EC GNP but only 20 per cent of EC exports.

US and EC negotiators are making good progress in their efforts to wrap up a substantial Gatt market access package at the Group of Seven industrialised nations' summit in Tokyo in July, according to senior officials on both sides.

Both stress that Japan's willingness to offer greater access in financial services will be critical to a deal. The idea is to set a market access deal alongside the US-EC Blair House accord to form a broad foundation for a comprehensive agreement to complete the Uruguay Round this year.

US call for Japan market access

By George Graham in Washington

US officials yesterday claimed progress in talks aimed at opening up Japanese financial services markets to US businesses, and said they would press for an agreement on market access by the Group of Seven summit in Tokyo in early July.

After talks in Washington between Mr Larry Summers, US Treasury undersecretary for international affairs, and Mr Tadao Chino, vice minister for international affairs at Japan's Finance Ministry, a US official said agreement on financial services was crucial to the general services section of the Uruguay Round of talks on liberalising Gatt.

The US has pressed for greater access to securities underwriting, asset management, banking and derivatives trading in Japan.

A Treasury official said the two countries had agreed to continue talks, particularly on derivatives, including stock index futures and options.

● Striking transatlantic differences in attitudes to international trade agreements are revealed in a survey to be published this week, Tim Dickson reports.

It shows that while a large majority of US chief executives consider the North American Free Trade Agreement far more important than the Uruguay Round of Gatt – and expect to benefit from it – their European counterparts believe Nafta will have little impact on their economies.

Three out of five European chief executives believe agreement on the Uruguay Round would strengthen their economies, with only half the Americans holding this view.

The survey by the Conference Board also finds national budget deficits and healthcare costs are top of both European and American worry lists.

Companies make offers to settle US steel trade cases

By Nancy Dunne in Washington

TEN governments and steel companies have submitted proposals to the US Commerce Department to settle 34 "unfair" trade cases in the hope of escaping punitive American tariffs on their flat-rolled steel exports.

This is the first sign that the cases could be settled with "voluntary" limits on steel trade like those agreed with the US during the 1980s. The previous Bush administration vowed not to resort to what are essentially steel quotas.

Instead, Mr Bush said he would stand back from the "quasi-judicial" process under which tariffs can be levied on products judged to be subsidised by their governments or dumped at "less than fair market value". The Clinton administration has indicated no change in steel policy.

The Commerce Department now has until midnight on June 21 to negotiate these proposed "suspension agreements" and to rule on 52 other dumping and countervailing duty cases filed last year by the US steel industry. Trade officials have indicated that suspension agreements would only be satisfactory to the US producers if they included guaranteed price floors.

Countries whose governments or steel producers submitted proposed suspension deals are: Argentina, Australia, Austria, Brazil, Finland, Germany, Mexico, Sweden, Poland and New Zealand.

Missing from the list are some of the biggest suppliers in Japan, Canada, the UK, France, and Italy.

A Commerce official said the US would not consider settlement of the 34 cases unless the "unfair trade practice" or its impact on US producers was eliminated. No deal will be acceptable unless it is "as advantageous as the completion of the government's subsidy and dumping investigations".

After June 21, the remaining cases must go to the US International Trade Commission which determines if there has been injury. If cases drop out of the process – through settlement or a rare finding that subsidies and dumping have not taken place – the ITC commissioners could find it more difficult to return an injury finding.

With three Democrats and three Republicans on the commission, the ITC is now believed to be more inclined to rule for domestic producers.

Many trials on the long road to harmony in drug testing

Peter O'Donnell reviews progress on common clinical standards

IF a European company wants to market a drug in the US, the chances are it will have to conduct two new clinical trials there. To launch it in Japan, it will have to conduct entirely different preclinical testing.

The diversity of national drug regulations has impeded pharmaceutical trade and rising expectations of drug performance are making things worse.

As new testing techniques become available, national requirements on drug launches become more onerous. It couldn't have come at a worse time – just as each expensively developed medicine needs to be brought rapidly into revenue generation on as many markets as possible, there are loud calls for closer international alignment of drug testing requirements.

It is not only the drug industry pushing for change. Far-sighted regulators perceive that duplication of testing is not only a drain on resources, but can also delay patient access to valuable new drugs. "Unnecessary repetition of trials is unethical," said the EC Commission's Fernand Sauer at a meeting in Brussels last month.

Moves towards harmonisation of requirements are nothing new in Europe's patchwork quilt of drug markets, where diverse rules complicate the lives of companies seeking international exposure for their drugs.

In the European Community, the first directive on pharmaceuticals in 1965 aimed at a balance: to "safeguard public health", but in a way that "will not hinder" trade in medicines.

The latest stage of this EC development is the European Medicines Agency – now on the point of becoming a reality. There are also numerous moves to bring Efta countries and Central and Eastern Europe into a form of pan-European harmonisation.

Drug industry wants agreed international testing requirements

But the most ambitious recent initiative in pursuit of drug-rule harmonisation involves the big three: the USA's Food and Drug Administration, the Japanese Ministry of Health and Welfare, and the drug division of the Commission of the European Community, who are now co-operating with one another and with the drug industry as part of an International Conference on Harmonisation of drug regulation (ICH). A ICH meeting is planned for later this year, and some significant tripartite agreements are in prospect.

The subject matter of ICH is necessarily arcane, and its procedures byzantine: in preparation for the Orlando meeting, expert working groups are hammering out the minutiae of guidelines on stability testing, on medicines for geriatrics, on dose-response studies, and on reproductive toxicology.

As Dr Françoise de Cremiers of Wyeth Ayerst Research in Paris says: "Industry and regulators believe that harmonisation will reduce testing in animals and, eventually, in humans, and will promote earlier access to useful new medicines."

Among outcomes listed by Mr Kumeo Shirota, senior managing director of the Japanese Pharmaceutical Manufacturers' Association, are abolition of LD50 testing, shortened testing for repeated dose toxicity in rodents, and unification of some drug monographs. Mr Marc Duchne of Searle is more direct: "This will save us money and stop us killing so many animals," he says.

Regulatory harmonisation at this level is far from easy – the search for accommodations between schools of thought in Japan, Europe and the US has repeatedly highlighted widely differing medical and cultural traditions.

Dr John Beary of the US Pharmaceutical Manufacturers' Association believes this is an important part of the ICH process. "In parallel to the scientific agenda, ICH is also promoting common managerial and administrative methods which help create a more efficient working environment," he claims.

Harmonisation isn't universally welcome, either. Standardisation threatens the status of people working in health authorities or within multinational drug firms. And it can create discomfort: the strongest opposition to European harmonisation has come from countries where a strong national industry lobby feared that standardised drug evaluation would upset privileged relationships with national authorities. National pride can be as powerful a rallying cry as international trade.

Harmonisation is not a linear process, says Eigill Hvidberg, professor of Clinical Pharmacology at Copenhagen's University Hospital. "Even after agreement in principle has been reached by an international group of regulators on a common concept, it can take quite a time for the ripples to spread outwards so that everyone is ready to accept a common rule," he says.

This may be some time in coming. Progress on the European Medicines Agency has again slowed down this month, putting in doubt its 1995 start date. And an agenda is already under preparation for yet another ICH mega-meeting, in Tokyo, in late 1995. For the drug industry, there are certainly no quick fixes in sight on harmonisation of regulations.

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Yen soars to record high against $

By Michiyo Nakamoto in Tokyo

JAPANESE officials were yesterday at pains to damp speculation on foreign exchange markets abont US support for a higher yen as the Japanese currency surged to a record Y108.65 to the US dollar.

Japanese government bond prices moved sharply higher. But the stock market's Nikkei average closed only 264.23 points up at 20,895.99.

The yen's renewed appreciation in Tokyo followed strong dollar selling in New York on Tuesday triggered by a US Treasury Department report to Congress stating that a higher yen could help reverse Japan's huge trade surplus.

The report said that while the administration belisved exchange rates should reflect economic fundamentals, a decline of tbe dollar against the yen could be seen as s reflection of forces tending to limit and ultimately reverse Japan's widening trade surplus. Tha currency markets took it as indicating US support for a higher yen to reduce Japan's $111bn (£72bn) trade surplus, a view whicb has been fuelled by comments from US officials earlier this year.

Yesterday'a market reaction to the Treasury report is likely to have irritated Japanese officials, increasingly concerned that ths yen's 12 per cent appreciation against the dollar since the beginning of the year could hold back the country's economic recovery, widely expected later this year.

Japanese officials said tbe market was overreacting and moved quickly to counter suggestions that it was US policy to guide the yen bigher.

The Japanese autborities were joined in their attempts to damp speculation by Mr Lawrence Summers, US undersecretary of the treasury, who said in Washington the report did not aim to outline US policy but simply stated a fact.

In April, President Bill Clinton's remark that a stronger yen could reduce Japan's trade surplus led to a bout of dollar selling.

While US officials attempted to play down those remarks, Mr Ron Brown, US secretary of commerce, triggered a similar dollar sell-off by saying market-driven exchange rate movements could correct the US-Japan trade imbalance.

Pakistan court curtails president's power

Farhan Bokhari reports on why Islamabad expects business confidence to return

THE BALL is back in the court of Pakistan's politicians. Yesterday's dacision by the supreme court in Islamabad has returned the country to the path of democratic development fivs weeks after it seemed in danger of being derailed.

In a landmark decision, the court reversed last month's dissolution of the National Assembly and restored to office the government of Prime Minister Nawaz Sharif.

President Ghulam Ishaq Khan's dismissal of the government on April 18 was the third time since the lifting of martial law in 1985 that a prime minister had been sacked while in office, under powers introduced by the late military dictator, General Zia ul-Haq.

The constitutional amendments had strengthened presidsntial powers, allowing him to remove prime ministers, dissolve parliament and call fresh elections.

But the supreme court's ruling has apparently ended those arbitrary powers, or at least severely curtailed their use by any president in the future.

Mr Sharif's attempt to secure s vote in the National Assembly on curbing the president's powers bad led to his dismissal by Mr Khan.

Mr Sharif was due to call a session of the 217-seat assembly to seek a fresh vote of confidence, intended to reinforce his political credentials, close aides said after the court verdict.

However, the session could equally provide an opportunity to unseat him again. Mr Sharif's opponents in parliament, including those loyal to opposition leader Ms Benazir Bhutto and to the president, had been discussing ways in vote Mr Sharif out should the assembly be restored.

Mr Hamid Nasir Chattha, wbo resigned from Mr Sharif's cabinet before his government was sacked, said last night that "the matter is not over". He said dissidents from Mr Sharif's party would continua to oppose him in the assembly.

Politicians loyal to Mr Chattha said the dissidents were examining the possibility of an alliance with the opposition People's Democratic Alliance, led by Ms Bhutto, in an effort to remove the restored government. However, the extent of support on both sides in the assembly is unlikely to become clear until members begin to express their opinions in parliament.

The Sharif camp remains convinced thet it has the support of enough members to block any such moves.

If Mr Sharif survived the vote, it would clearly be difficult for him to co-exist with Mr Khan, since the two men are now bitter enemies. Mr Sharif could be further undermined by the four provincial governments, which are known to be loyal to the president and have an uneasy relationship with the prime minister.

In Pakistan'a 46-year history, army generals have ruled for 24 of them. Under civilian rule, Pakistan has seen 13 prime ministers, most of whom were removed from office or resigned before completing their terms.

Despite the army's past role in running the country, yesterday's court decision followed several weeks of assurances from military officials that they have no plans to take power.

Nevertheless, the restored government faces huge political as well as economic challenges. Mr Sharif has overseen a period of radical economic reform but appeared to be running into problems at the time of his dismissal.

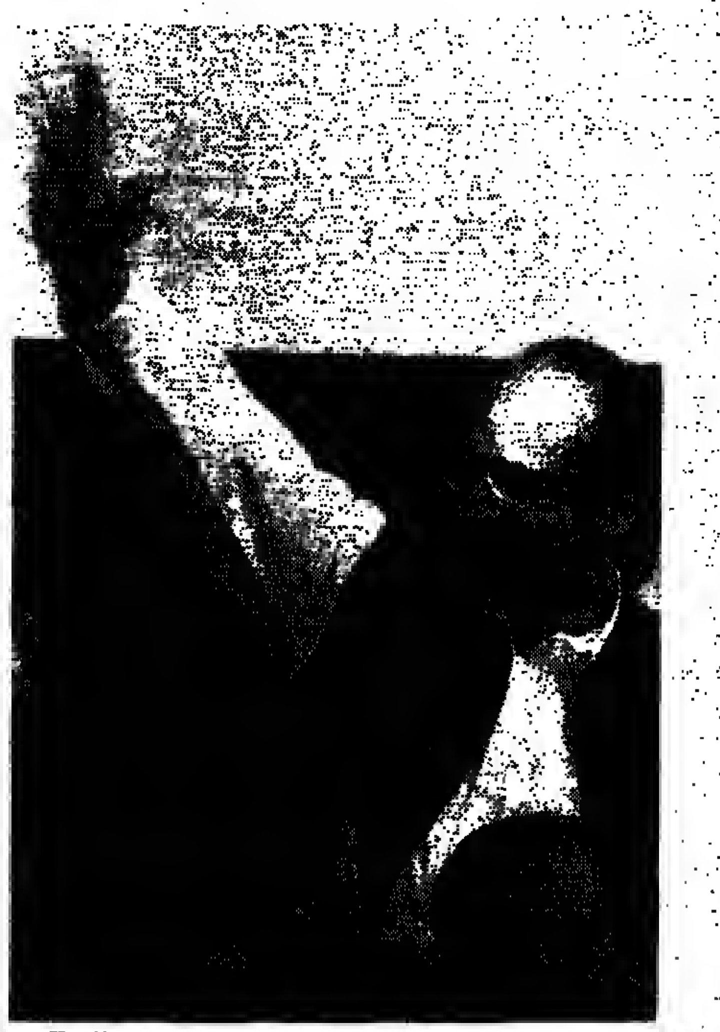
The fiscal year which ends on June 30 is expected to close with one of Pakistan's largest budget deficits. Tax evasion and substantial expenditures on defence as well as debt servicing have left little room for increasing development expenditures. A thriving black economy which is estimated by some to be almost half the size of the national economy has set back efforts to improve revenue collection.

Foreign exchange reserves dipped to $450m (£292.2m) from $800m when the government fell. However, Mr Sartaj Aziz, who was finance minister under Mr Sharif and is now likely to return to the same position, said last night that the court's decision will end the uncertainty.

"The restoration of the government will restore business confidence," Mr Aziz said, adding that economic reforms would be put back on track.

Government officials said last night that Mr Aziz and other ministers would hold a series of meetings with business leaders within the next week, in an effort to revive confidence.

They are expected to assure businesses that initiatives such as the privatisation programme will go ahead unhindered.



Nawaz Sharif greets supporters after the Supreme Court ruling yesterday

Japan seeks better links with China

By Robert Thomson in Tokyo

THE JAPANESE government is to propose to China that the two countries resume bilateral security negotiations, frozen after the crushing of the Chinese democracy movement four years ago.

Japanese officials will raise the sensitive issue during a visit by Mr Qian Qichen, the Chinese foreign minister, due in Tokyo this Saturday, in the hope of drawing Beijing into regional security discussions amid raising concerns about the expanding capability of the People's Liberation Army.

The Japanese foreign ministry is divided over how to handle China's increasingly sophisticated military technology, which some officials fear is changing the balance of power in the region and creating a potential long-term threat.

But the Chinese government does not welcome outside advice on the conduct of its military affairs, and the Japanese government would like Beijing to participate in broader discussions on regional security, which could include China's capability.

Japan would also raise issues such as North Korea's military intentions and its pullout from the Nuclear Non-Proliferation Treaty, as well as the changing role of Russia in the region and the future of Cambodia.

The formal forum for negotiations were cut in 1989 in protest at the People's Liberation Army's role in the crushing of the Chinese democracy movement, but Tokyo has become anxious to restart discussions and believes Mr Qian's visit provides an appropriate opportunity.

Mr Hiroshi Mitsuzuka, a faction head of the ruling Liberal Democratic party, bas expressed concern about the modernisation of China's military, highlighted by a planned 14.9 per cent increase in spending for fiscal 1993, but the Japanese government generally has been timid on the issue.

Japan's concerns were echoed earlier this month by Mr Goh Chok Tong, Singapore's prime minister, who suggested that China will not be a significant military threat over the next five years, but that continuing economic growth could be accompanied by an expansion of military ambitions in about 20 years' time.

US oilmen abducted in Yemen

TWO US oilmen working in a remote part of Yemen have been abducted by tribesmen, Reuter reports from Sana.

The two Americans and their Yemeni driver, all working for Dallas-based Hunt Oil, were ambushed on Tuesday afternoon in an area wbere Hunt has a big concession. The government was negotiating for their release, a company source said.

Several Hunt employees have been abducted in the past two years by tribesmen. All have been released unharmed.

Iraqi Kurdistan villages shelled

An Iranian Kurdish rebel gronp said Iranian gunners sbelled a dozen villages in Iraql Kurdistan yesterday, injuring 12 peopie including a baby, Reuter reports from Nicosia.

The Democratic Party of Iranian Kurdistan (PDKI) said its beadquarters just inside Iraq near Qala Diza, 320 km north-east of Baghdad, came under beavy artillery attack over the past two days.

Zambian troops at Angolan border

Zambia yesterday said it had deployed troops along its 850 km border with Angola to prevent Unita rebels from attacking, Reuter reports from Lusaka.

"Unita has been threatening to attack ns for a long time now so we have sent troops to the north-western provinces," a Defence Ministry official told Reuters.

Thousands of Angolan refugees have fled into Zambia since the civil war resumed between the Angolan government and Unita (National Union for the Total Independence of Angola) after the rebels rejected their defeat in September's elections.

Asia looking to gas for expanding energy market

By Kieran Cooke in Singapore

FT ASIA'S energy capacity is set to expand to a level where it will surpass the power capacity of the US by the year 2010, an Asia energy analyst said yesterday at a Financial Times conference in Singapore.

Mr Daniel Goldman of US energy specialists Arthur D Little said governments, the private sector and the multilateral agencies not only had to find the funds for power generating expansion, they also had to find adequate supplies of fuel.

He said gas fuel was an increasingly attractive option, mainly because of cost and environmental factors. While Asia bad abundant gas reserves, a tripling of demand for gas in the region between now and the year 2000 would result in regional supply shortages. At present about 12 per cent of Asia's power is generated by gas.

Mr Guy Doyle, associate editor of International Coal Report, said coal accounted for about 36 per cent of total generation in the region.

While he accepted that gas was the most favoured fuel, India and China, the region's two biggest coal users, would continue to get the bulk of their power needs from coal.

Some speakers at the conference said that serious environmental problems would occur in the medium term if China and India did not switch to other fuels or invest in new, more technologically advanced coal plants.

Mr Woodrow Williams of General Electric Nuclear Energy said nuclear energy had become more acceptable and that there was considerable interest in its use in most Asian countries. Japan, South Korea and Taiwan already had considerable nuclear energy programmes. Indonesia, Thailand and Malaysia were investigating the possibilities of nuclear power.

Mr Frank Gray, conference chairman and editor of the Power in Asia newsletter, said that over the past year several governments in the region had implemented or announced plans to privatise their power utilities and had also made conditions more attractive for private sector participation in the power sector.

"The Philippines, which has been gripped by a power crisis, now says that the immediate problems will be solved by the autumn. But the basic question for everyone remains one of money. If power in the region is to grow as forecast, enormous sums of capital have in be mobilised," said Mr Gray.

China frees dissident as EC team probes human rights

By Tony Walker in Beijing

AN UNREPENTANT Mr Xu Wenli, one of China's longest serving dissidents, was freed from jail yesterday three years before his 15-year sentence expired. His early release, apparently aimed at calming criticism in the West of human rights violations, came as China faced censure over an EC mission to Tibet.

Appearing gaunt and with several of his teeth missing, Mr Xu denied any wrongdoing on his release, saying his political activities had been "for my country and my people".

Mr Xu, 49, ons of China's best-known dissidents, was arrested in 1981 and sentenced the following year. He had been publisber of an underground magazine, April 5 Forum, during the Democracy Wall protest period of the late 1970s and is the sixth political prisoner to be given early release this year. The Chinese gesture coincides with Washington's decision, due by next week, on renewal of China's Most Favored Nation trading status. It also appears to be aimed at improving its chances of aecuring endorsement for the right to stage tbe 2000 Olympiad.

Mr Xu's release came as EC representatives met in Beijing to complete a report of their recent mission to Tibet. The mission ended in recrimination at the weekend with envoys protesting over detention of two Tibetans who had been planning to make contact.

The streets of Lhasa, the Tibetan capital, were reported calm yesterday after disturbances on Sunday and Monday in which large crowds of protesters were dispersed by tear gas. Foreign travellers reported hearing automatic gunfire.

■ Kieran Cooke adds from Singapore: China says it will not use force to pursue its claim to the Spratlys, the disputed group of islands in the South China Sea.

Mr Chi Haotian, the Chinese defence minister, who is visiting Malaysia, said China still insists on its "historical right" to the Spratly islands. But Mr Chi said China also accepted the "differing opinions" of other claimants – Malaysia, the Philippines, Vietnam, Taiwan and Brunei.

Mandela plea after radicals quit talks

By Patti Waldmeir in Johannesburg

Mandela: don't panic

MR Nelson Mandela, president of the African National Congress, yesterday sought to maintain the momentum of the country's democracy negotiations after the ultra-radical Pan Africanist Congress said it was suspending participation in the talks.

PAC President Clarence Makwethu announced the PAC would boycott constitutional negotiations until police released all members of the PAC and its armed wing, the Azanian People's Liberation Army, detained since Tuesday. Police said 73 people had been arrested, with 15 released yesterday.

Mr Makwethu also called for the return of documents and computers seized in raids on PAC offices throughout South Africa.

But Mr Mandela urged South Africans not to panic over the issue, saying: "Since we began the negotiating process in 1990, we have had a number of problems. This is one of them.

"I'm sure that the democratic forces are strong enough to overcome this crisis."

The PAC's decisloo to boycott talks could make it difficult for the 26 negotiating parties to meet their self-imposed deadline of June 3 for agreement on a date for the first multi-racial elections.

Bot on its own the PAC, believed to have only limited electoral support, cannot block progress.

Controversy has arisen over the fact thet the government's chief negotiator, Mr Roelf Meyer, was not informed about the arrests, which have come at a critical stage in the negotiating process.

The PAC responded angrily to the arrests, saying it would act "brutally and ruthlessly" against white South Africans unless police immedistely freed their members.

Government officials sald racist rhetoric such as this prompted police to act against members of the PAC, whose followers have adopted the slogan "one settler, one hullet".

Although the military strength of the PAC armed wing, APLA, is minimal, individuals claiming to be APLA members have carried out numerous murders of white farmers and holidaymakers in recent months, seriously damaging white morale.

The PAC leadership has been ambivalent at best when asked to condamn sucb attacks. Police say they expect to charge many of those held for various crimes, including murder.

Meanwhile, the ANC distanced ltself from a demand made last weekend hy Mr Mandela for the official voting age to be lowered to 14. Mr Mandela shocked politicians across South Africa's spectrum when he made the call in an apparent hid to win support from militant township youths.

Keating pays price of promises

Emilia Tagaza on Australian budgeting after unexpected election win

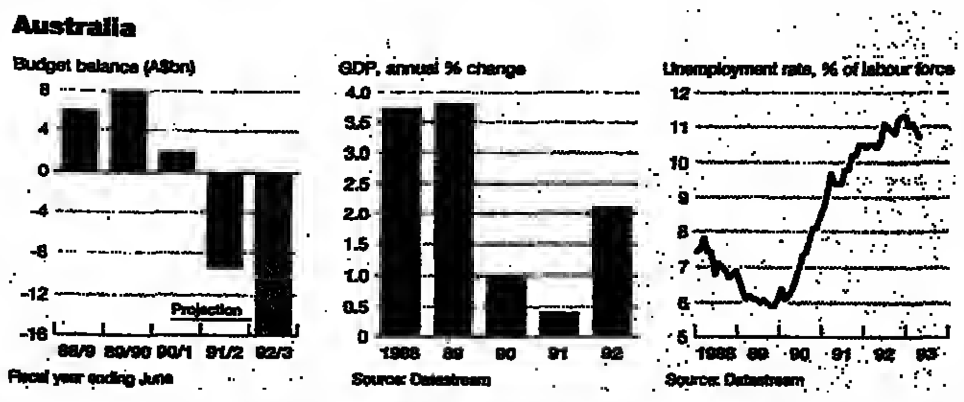
AS THE Australian budget-framing season gets under way the newly re-elected Labor government is buckling down to the task with a starting-point deficit of at least A$15.9bn (£7.1bn).

Mr Paul Keating, the prime minister, grappling with record unemployment, has promised to create 500,000 johs during his three-year term. The extra stimulatory spending required is in addition to the A$4.5bn he has injected over the past 12 months to prod the stuhborn economy into life and pull down the unemployment rate.

The problem for Mr Keating is that even without additional new spending, the deficit over the next three years, barring an economic miracle, is likely to remain high.

His government is pledged to deliver personal tax cots, worth A$8.6bn between 1994 and 1996. Other expensive pre-election spending promises are expected to cost another A$2.2bn over the next three years.

The package is part of a Dutch auction between Labor and the opposition conservative coalition parties – a cynical vote-buying exercise hy a demoralised Labor party which had held little hope of being



re-elected. Perhaps it was for this reason that it did not count on having to deliver the package which offered something to important voting blocs: women, pensioners and small business.

Few were surprised when only two months after its return to power, the government backed down on some of its pledges, including an A$100m to buy out private hospital places to reduce surgery queues.

The promised tax cuts will be more difficult to break because they have been enshrined in law.

Mr John Dawkins, the federal treasurer, said this week the government would have to cut A$2bn from existing programmes to keep the 1993-94 budget deficit to A$16bn.

It may have just about exhausted its arsenal however. All the fiscal stimulus of the last 12 months and all the interest rate cuts over the last two years have not delivered the hoped-for private investment.

Official figures released yesterday show a 9 per cent drop in Australian capital spending during the three months to March.

Mr Keating's forecast of an average 4 per cent growth between 1992 and 1993 has been adjusted to between 2.5 and 3 per cent.

Labor's hopes that import tariff reductions (from 20 per cent in the mid-1980s to 5 per cent by the end of the century) would, by exposing it to international competition, make Australian industry more efficient and provide long-term economic growth have so far been unfulfilled.

Jobs have been lost rather than gained. Manufacturing turnover in 1991-92 was 2 per cent less than the previous year.

The government is under pressure to pause, or at least slow down, the scheduled tariff cuts. A pause could bring in A$2bn in revenue that would otherwise be lost to tariff cuts.

Meanwhile, the continuing deficit in the current account puts extra constraints on government spending. The latest monthly figure, a deficit of A$3.1bn, was the highest monthly shortfall in more than three years.

The high current account deficits recorded in the last several years have left net foreign debt of A$168bn or 43 per cent of gross domestic product. For the moment, low world interest rates have reduced that service to 14.5 per cent of export income from a peak of 21 per cent.

An alternative measure which could help keep the lid on the budget deficit is to raise taxes. However, Mr Keating is not prepared to discuss this, at least for the moment.

He is in the prime minister's seat today because he ran a scare campaign against the conservative opposition's proposed goods and services tax. To talk about it early in this term would dent his political credibility. However, the national interest may yet cause him to back down on another election promise.

Khmer Rouge keeps the world guessing

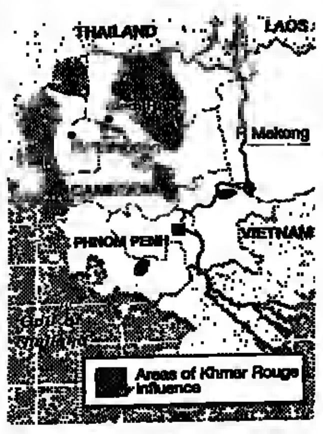
Victor Mallet reports from Phnom Penh

THERE was a time when mere mention of the words Khmer Rouge was enough to strike fear into the hearts of Cambodians. It was Khmer Rouge cadres who executed, starved and tortured to death about 1m people in the attempt between 1975 and 1978 to build a rural, racially pure and communist state.

More recently, the Khmer Rouge has violated a 1991 peace agreement and killed several United Nations peacekeepers, including three Bulgarians gunned down in their UN camp by previously friendly Khmer Rouge guerrillas they had invited to supper.

The Khmer Rouge's confused response to the UN-organised election this week, however, has dented its reputation for single-minded ruthlessness.

Khmer Rouge radio hroadcasts, notices pinned to trees, and visiting bands of guerrillas had warned Cambodian villagers not to vote, on the grounds that it would legitimise the



government installed in 1979 hy the Viatnamese invasion which overthrew the Khmer Rouge regime. Voters were threatened with death.

Not only were the threats ignored (the turnout was at least 85 per cent), hut Khmer Rouge leaders in several districts actually let people go to tha polls and encouraged them to vote for the royalist party Funcinpec, tbe main opposition party standing in the election. Widespread attacks on polling stations, expected hy the UN, did not materialise.

The Khmer Rouge seems to have dithered and then decided against an all-out assault on the vulnerable polling stations scattered across the country, in the hope that Funcinpec, its former ally against the Vietnamese occupation, will win a majority and grant the Khmer Rouge a rola in government.

Prince Norodom Ranariddh, Funcinpec leader, has promised to hand executive power to his father Prince Norodom Sihanouk if Funcinpec wins, and Prince Sihanouk, backed by China, had spoken of the need to bring the Khmer Rouge into government in the interests of national reconciliation.

The many enemies of the Khmer Rouge in Cambodia and abroad are worried that Prince Sihanouk, far from punishing the organisation for its intransigence and unwillingness to submit itself to a popular vote, is poised to reward it with an undeserved share of power.

They argue, it would be folly to let the Khmer Rouge into a weak coalition government without insisting its guerrilla army be dismantled.

Prince Sihanouk yesterday sought to ease fears that he might accommodate the Khmer Rouge hy completely reversing his stand on the issue. He told European parliamentarians the guerrillas had suffered a defeat from which they would not recover and he now opposed Khmer Rouge participation in government.

"The election is a great success for Cambodia and the world, and an unhelievahle defeat for the Khmer Rouge," the notoriously fickle prince was quoted as saying hy Mr Claude Cheysson, the European MP and former French foreign minister.

The Khmer Rouge is keeping its options open, and its fighters are prepared to continue the civil war if necessary.

According to Mr Yasushi Akashi, chief of the UN Transitional Authority in Cambodia, Khmer Rouge front-line military strength has increased by 50 per cent to about 15,000 men since last year: "They seem to be headed by more dedicated, more determined, more active and aggressive commanders."

Mr Akashi's figures are disputed – other estimates suggest there are 12,000 Khmer Rouge front-line troops – but there is no doubt that Khmer Rouge guerrilla units have used the 19 months since the peace agreement to seize territory previously controlled by allies such as Funcinpec.

The Cambodian government has vowed to treat Khmer Rouge fighters as bandits if it wins the election, but there are doubts if the guerrillas can be crushed in the same way as previous communist insurgencies in Malaysia or Thailand.

Before contacts between the UN and the Khmer Rouge were severed a few weeks ago in the face of Khmer Rouge threats, the guerrillas in some districts impressed UN military observers with their discipline and smart uniforms; they apparently treated villagers well and paid for the rice they took. In other areas, however, they are notorious for forcing peasants to work for them and for seizing control of paddy fields by planting mines.

Khmer Rouge leaders struck a sympathetic chord with nationalistic Cambodians hy massacring immigrant Viatnamese fishermen and condemning corruption in the Vietnamese-backed Cambodian government, hut their own dealings with corrupt generals from Thailand (Cambodia's other traditional enemy) have not gone unnoticed.

Publicly, Khmer Rouge leaders admit to "mistakes" in the past and say they are free marketeers rather than communists. Most Cambodians, however, are convinced they have nslther repented nor abandoned their own destructive brand of leftism.

Government considers M-way privatisation

By Richard Tomkins, Transport Correspondent

THE GOVERNMENT faced fresh controversy over its transport policies yesterday as it set out proposals for following the privatisation of the railways with a scheme for privatising UK motorways.

A consultation document published by the Department of Transport suggested that the motorways could be put on a profitable footing by charging people to use them. Car drivers could face pay-as-you-go tolls of up to 1.5p a mile or an annual fee of up to £75.

Private sector companies could then be invited to compete for franchises to operate the motorways, using the revenue produced by the charges to fund the construction of extra lanes or new roads.

Mr John MacGregor, the transport secretary, unveiled the proposals yesterday morning hours after narrowly surviving a House of Commons vote on the governmeot's controversial privatisation of British Rail – opposed by several Tory MPs – which is also based on a system of route franchising.

Mr MacGregor seemed anxious to play down motorway privatisation, making no mention of it as he launched the document, known as a green paper.

But Mr Norman Lamont, the Chancellor, was simultaneously telling a Confederation of British Industry conference that motorway charges "could pave the way for the privatisation of large parts of Britain's motorway network."

Mr John Prescott, the opposition Labour transport spokesman, called the plan "another poll tax on wheels" and said the revenues from charges and privatisation would benefit only the Treasury.

Motoring organisations warned that motorway charges would only be acceptable if there were guarantees that the money was used for extra spending on roads.

Mr MacGregor said motorway charges were being proposed because the government could not afford to finance the construction of enough new road capacity to stop existing motorways becoming clogged up by congestion.

He stressed that the government was not committed to any of the proposals in the paper. "I want to stimulate a big public debate," he said. "We have no blueprint, nor have we taken any decisions."

Mr MacGregor said he had already ruled out toll booths as a way of collecting money because they would take up too much land, leaving annual permits or electronic tolls as the two remaining options.

Of these, the annual permit was the least satisfactory because it charged everyone the same regardless of the use they made of the motorways, Mr MacGregor said, but an electronic system would not be available until at least 1998.

The consultation document suggests that charges for lorries, already taxed more heavily than almost any in Europe, would be much higher than those for cars. The option yielding the most revenue – £700m a year – would leave car drivers paying 1.5p a mile or £25 a year, while lorry drivers paid 4.5p a mile or £75 to £750 a year, depending on the vehicle's weight. Many motorists would be unaffected by the charges because less than 50 per cent of them use the motorways regularly, the green paper says.

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Lamont sees no limit to private financing

By Andrew Taylor, Construction Correspondent

THE UK government yesterday told employers that there was no limit to the number of public developments which could be financed by private investment.

Mr Norman Lamont, chancellor of the exchequer, said Britain should follow overseas models in using private capital for infrastructure schemes such as road building.

Speaking at a conference, organised by the Confederation of British Industry, he said: "From now on, any project which can be paid for from user charges and can satisfy the normal planning requirements can proceed."

"All over the world people, people have come to see what private finance can do. They are familiar with with privately financed roads in Asia and North America and there is absolutely no reason why the benefits of private finance should not be enjoyed more widely in Britain too."

The chancellor said private finance could transform the way in which major capital projects were carried ont in Britain in the 1990s – in the same way that the country had been transformed in the 1980s by the privatisation of state owned industries like telephone and water services.

Addressing the same conference, Mr Howard Davies, director general of the CBI, the employers' organisation, urged the government to establish a separate agency to promote joint ventures between the public and private sectors.

Private sector involvement in investments traditionally financed by the public sector required a degree of partnership between government and industry "which has been all too rare in the UK", he said.

Mr Lamont said the government was prepared to consider joint ventures where developments could not be justified on commercial grounds alone but providad worthwhile social benefits.

The chancellor for the first time gave some guidance on bow these might work: "In many cases, I hope that the project's promoter will retain all the equity in the project with the Exchequer simply making a one-off contribution."

The size of this public sector contribution might be determined by bids from competing rival private sector promoters. Bids that require heavy public sector investment would seem less likely to succeed than those offering greater private sector involvement.

Mr Lamont said any project could proceed if it satisfied three principles: value for money for taxpayers; competition between private participants in joint ventures; and a substantial degree of risk to the private sector.

"We cannot look to public finances to fund the kind of improvements to the road network we all want to see," he said.

Oil workers face derecognition

By Robert Taylor, Labour Correspondent

SHELL will next month derecognise trade unions at a refinery in the Thames Estuary in a move seen by the Transport and General Workers union as part of a wider strategy to drive the unions out of Britain's oil industry.

Mr Fred Higgs, the TGWU's national oil industry officer yesterday accused the oil companies of "collusion to achieve a union free environment".

Both BP and Esso have made moves to derecognise unions in parts of their operations while last year all the companies – except for Mobil – scrapped union agreements in oil distribution.

The company says it is imposing the move to cut its operating costs, improve efficiency and maximise its investments in a depressed bnt highly competitive European refining market.

Shell intends to push through sweeping changes in working practices. This will involve the creation of teamwork with the abolition of demarcation lines and the establishment of staff status for all Shell Haven workers.

Shell is also planning to introduce individual appraisal for workers to determine their pay replacing annual collective bargaining with unions. The company also intends to contract out work – starting with canteen and security jobs but possibly extending to maintenance work.

Workers will still be able to remain union members but all the company's formal negotiating agreements with the unions are to be scrapped. In a confidential briefing for its managers Shell says it intends to make the refinery virtually strike free as well.

Britain in brief

UK-Belgium gas pipe plan needs £290m

Construction of a £290m gas pipeline linking the UK to Belgium could start at the end of next year and be completed by 1997, according to the companies that launched the project yesterday.

The steering committee of seven companies which have been studying the feasibility of the link are planning to distribnte a prospectus next week. They are trying to gauge the extent of market interest in the project in the hope of raising funds for its construction.

The pipe would carry 15bn cubic metres of gas a year to Zeebrugge in Belgium from where it could be distributed throughout the European gas grid.

The companies involved in the project which inclnde British Gas, British Petroleum and Norway's Statoil are believed to be planning a pool system for offering spare capacity in the pipe.

Energy companies are expected to be asked to agree 20-year contracts for sending gas through the pipe.

Court of rights rules on Ulster

The government's powers to arrest and detain terrorist suspects do not violate human rights, the European Court of Human Rights in Strasbourg ruled. The situation in Northern Ireland justified an exemption for Britain from a requirement under the Human Rights Convention to bring suspects "promptly" to court.

The judges voted by 22-4 to reject a complaint by two Northern Irishmen who claimed their human rights were breached when they were arrested and held under the Prevention of Terrorism Act.

Peter Brannigan, 29, from Downpatrick, and 42-year-old Patrick McBride, from Belfast, were arrested in January 1989 and held for six days 14 hours and 30 minutes and for four days six hours and 25 minutes respectively.

Building still 'in recession'

Mnch of Britain's construction industry remains in recession, despite the recent revival in bousebuilding, according to separate statistics pnblished yesterday by the Environment Department and Blne Circle the country's biggest cement producer.

Orders received by contractors in Great Britain rose by 2 per cent during the first three months of this year compared with the first quarter of 1992, according to the department.

Construction orders were 22 per cent higher than during the final three months of last year when investment confidence fell sharply in the wake of Britain's withdrawal from the ERM.

Swan Hunter wins lifeline

The Ministry of Defence has agreed that work on three Type 23 frigates can continue for another two weeks at Tyneside shipbuilder Swan Hunter, receivers Price Waterhouse confirmed.

Mr Ed James, head of the receivers' team at Swans, said verbal agreement had been reached with the MoD for outfitting on the three frigates to continue on the Tyne until Friday June 11.

News of the extension of work on the frigates, Swans main current workload, provides a lifeline for the company, which is fighting to retain a core workforce, secure further orders and strengthen its chances of being sold as a going concern.

BR wins case to close pits

British Coal's plans to sell off 20 mines to the private sector were advanced when the High Court ruled the corporation could go ahead with the shutdown of the first 10 pits in its closure programme.

Two High Court judges ruled British Coal could legally shut the 10 pits since the corporation had now complied with the conrt's conditions, imposed last December when the programme was declared illegal, for genuine consultation to take place with the mining unions.

Ferry company may be sold off

The government is to study the possible privatisation of Caledonian MacBrayne, the state-owned ferry company which provides services to the Hebridean islands off the west coast of Scotland. The idea of privatising Caledonian MacBrayne, which enjoys an annual government subsidy of around £7m, is likely to be an emotive one. It has already caused protests from Labour and Scottish National Party MPs, and will worry some Conservatives.

Nissan freezes recruitment

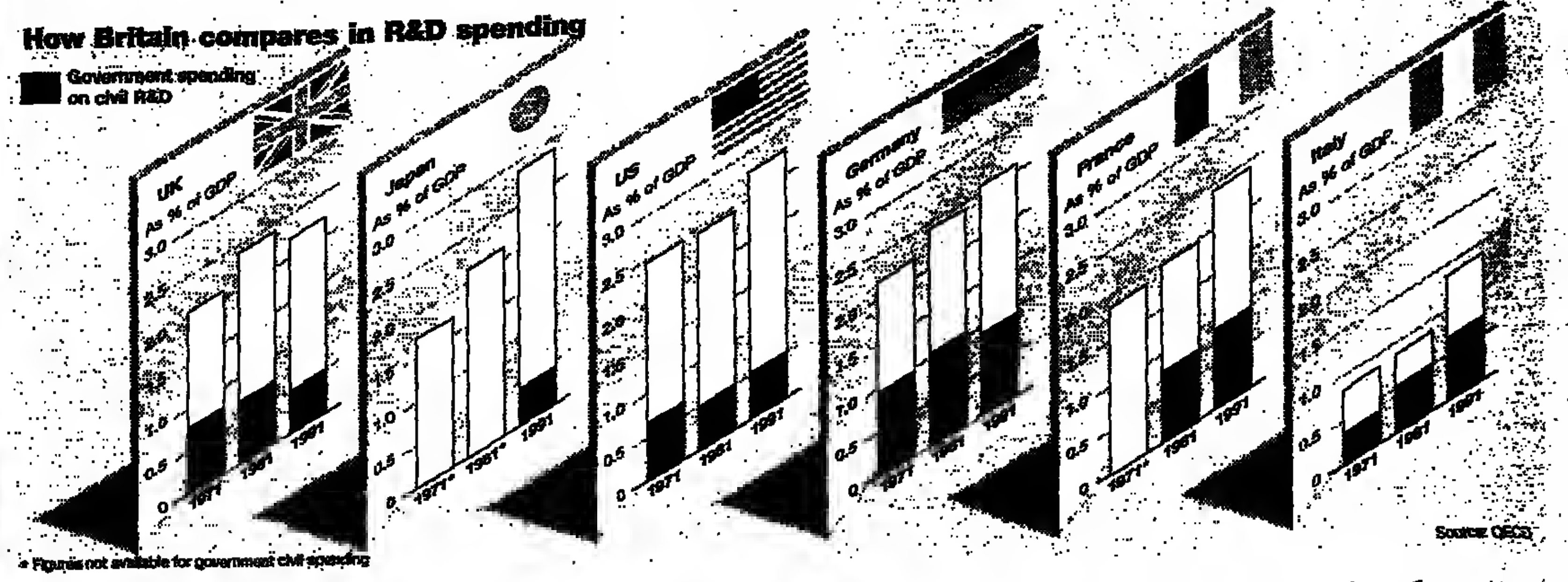
Nissan, the Japanese carmaker, has frozen recruitment at its Sunderland car plant and is not retaining temporary contract workers, because of the downturn in European car sales.

Confirming tbe measures yesterday, the company said: "The climate is very difficult." Bnt it stressed that Nissan Motor Manufacturing UK and its managing director Mr Ian Gibson were absolutely committed to ensuring there were no redundancies at the plant. "He will fall on his sword before that happens," the company said.

The plant employs 4,600. During its rapid build up in recent years the plant has taken on temporary workers during surges in demand.

NEWS: UK

How Britain compares in R&D spending



Science strategy links wealth to research

By Clive Cookson, Science Editor

THE first new UK government strategy for science and technology for 21 years was unveiled yesterday, with the emphasis on harnessing research more closely to wealth creation.

The most innovative feature of the policy paper on science is to introduce "technology foresight" – a new method for picking the areas of research that are most likely to produce winning products for British industry.

Mr William Waldegrave, minister for science, said the foresight exercise would involve widespread consultation between his Office of Science and Technology and experts from industry and universities.

Another unexpected change in policy concerns new arrangements for training postgraduate scientists and engineers. The MSc will become the normal first post-graduate degree and fewer students will go on to do a PhD.

The policy paper also announces widely expected changes in the way the government manages its £6bn a year spending on research and development.

Its two main advisory committees are replaced by s new powerful Council for Science and Technology, chaired by the science minister and containing representatives from industry and universities.

But there is no far-reaching transformation of the existing science policy structure and some government departments, notably the Ministry of Defence which spends 40 per cent of public R&D funds, are hardly affected.

The paper – which is entitled "Realising our potential: a strategy for science, engineering and technology" – rejects all the radical ideas that had been proposed during the year-long consultation period, such as tax credits for industrial research and development.

Industry broadly welcomed the paper as providing a clear and sympathetic policy framework for the next five to 10 years, while academic bodies and scientists were more guarded – and opposition parties condemned it.

Mr Lewis Moonie, the Labour science spokesman, called it "a complete failure" and predicted that it would be a "bitter disappointment" to scientists.

Save British Science, the main scientific lobby group, complained that Mr Waldegrave had failed to obtain any of the additional resources that would be needed to implement the new strategy.

But he insisted that it "puts science and engineering back where they belong – on the top of the agenda for solving our current problems and raising our future prosperity."

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UK's foresight to follow Japan, Germany and US

By Clive Cookson, Science Editor

THE CENTRAL theme of the government's science and technology strategy is to harness research more effectively to wealth creation – and the technique chosen for doing so is "technology foresight".

As the term is used now, foresight is quite different from old-fashioned technology forecasting. Foresight is a much more active exercise in influencing the future. It is a way of picking winners – not in the form of specific projects but as strategic areas.

The government's new Technology Foresight Programme will be overseen by Prof Bill Steward, chief scientific adviser. Panels of experts to carry out foresight assessments for a wide range of technology sectors.

The point of the exercise is to evaluate the fit between

- Trends in science and availability of strong research groups to work in the most promising areas (science-push).
- Emerging economic developments and the existence of companies in the UK with the ability and desire to develop and market the results of the research (demand-pull).

The results of technology foresight will affect all government decisions on research allocation.

In other countries foresight is much more wide-ranging than in the UK. "For example, in Japan and now Germany and the US, foresight exercises take place within companies, within industrial associations, within individual government departments or funding agencies, and spanning all research," Mr Martin says.

The first report of the Technology Foresight Programme is due at the end of 1994.

Trading soars in overseas equities

By Peter Martin

NEARLY half the shares traded on the London Stock Exchange in the first three months of 1993 were from overseas, according to figures released by the exchange yesterday.

Turnover in international equities rose 34 per cent to a record level. It reached £116bn in the first quarter, compared with £138bn (up 18 per cent) for English and Irish equities. International equities made up 46 per cent of total equity turnover. Gilt turnover was also up sharply, rising 24 per cent to £395bn.

The proportion of international trading continued to rise after the quarter was over. In April, according to Mr Quentin Smith, the exchange's market analyst, 54 per cent of equity trading was in international stocks, the highest figure since early 1990, when domestic volume was particularly low.

Mr Stephen Wells, the chief economist of the London Stock Exchange, said that criticisms of limits on the transparency of stock market dealings in Britain are unfounded or redundant.

Writing in the spring issue of the Stock Exchange Quarterly, published yesterday, he addressed the questions of whether and when details of stock trades should be published.

Currently, details of large trades are published after a 90 minute delay. Discussions about changing the rules are under way between the marketmakers, the exchange, and the regulators, with a compromise announcement expected early next month. The compromise is thought to involve a greater delay in the publication of very large trades.

Mr Wells concludes: "The undoubted strength of London's markets is the commitment to provide liquidity. This commitment could not continue if the positions of market-makers were effectively on display – which is what total transparency means. .Markets which fail to meet the needs of users will lose business to markets that do."

Bank faces losses of £115m on past loans

By Robert Peston, Banking Editor

THE BANK of England faces losses of £115m on loans it made in the past two years to prop up a number of financially troubled small banks.

The Bank made the disclosure that it made £115m provisions against possible loan losses in its 1993 annual report, published yesterday.

The report also says Mr Robin Leigh Pemberton, the Bank's retiring governor, was paid £227,000 last year, 15 per cent higher than in the previous year.

However, in both years, Mr Leigh Pemberton waived his entitlement to £34,135 of the remuneration.

Mr Leigh Pemberton's pay rise is likely to attract controversy, since the Bank's performance, especially its supervision of the Bank of Credit and Commerce International, the corrupt international bank, has been much criticised.

The Bank said that in 1991 it organised a financial lifeboat to rescue a handful of small and medium size banks. These banks were facing a crisis, because financial institutions were withdrawing deposits.

After consulting the Treasury, the Bank decided to provide indemnities to clearing banks which made loans to these small banks. Over the following year, several hundred million pounds of Bank-guaranteed loans were made to a handful of small banks.

In total, the Bank kept a close watch on 40 banks, which it believed were vulnerable.

It felt that banks with significant exposure to the property sector were most at risk.

The Bank was concerned that if a series of small banks collapsed, that could shake confidence in the UK financial system.

Last autumn, when sterling withdrew from the European exchange rate mechanism and sterling fell, the Bank became convinced that the risk of a crisis had receded.

TV takeover rules to be reviewed

By Raymond Snoddy

RULES preventing Britain's independent television companies from taking each other over are to be reviewed by the government, it emerged yesterday.

There is growing concern that as broadcasting becomes an increasingly internstional business Britain's ITV companies may simply be to small to compete on the international stage.

The 1990 Broadcasting Act designated nine of the 14 regional companies as "large" and therefore unable to take each other over.

A number of broadcasters such as Central Independent Television and Carlton Communications have been lobbying the government to change the rules.

They have pointed out that while most ITV companies cannot take each other over or merge, all of them can in turn be taken over by European Community companies from the beginning of next year.

The National Heritage Secretary plans to call a meeting on the issue with all of the ITV companies.

In particular, Mr Brooke wants to hear the economic case why there should be a relaxation of the rules to allow larger commercial television companies to emerge in the UK.

BAe pays £57.6m to settle case over Rover sweetners

By Paul Betts, Aerospace Correspondent

BRITISH Aerospace (BAe) yesterday paid £57.6m to the UK government to settle the long running case over the "state sweeteners" it received when it acquired the Rover car group in 1988.

But BAe said the net cost of the settlement to the company would be £42.2m because it expects to recover £15.4m in tax relief.

The company was ordered in March by the European Commission to pay back the money after the EC ruled that the benefits BAe received from the UK government constituted illegal state aid.

The issue was first raised back in 1990 by Sir Leon Brittan, then EC competition commissioner, but became entangled in long procedural wrangles before the European Court of Justice.

The Commission finally ordered the UK government two months ago to recover £44.4m on the illegal payments, plus interest, from the serospace group.

Under the agreement reached between the government and the company, however, BAe has paid £57.6m, made up of £11m for the actual aid it received and £46.6m in interest payments. The government had allowed BAe to defer for two years interest free payment for Rover.

By recovering the tax relief which would have been available on the interest payments, BAe expects to reduce the net cost of the settlement by £15.4m to £42.2m.

The government has agreed to deposit the £15.4m in special sccounts and held until the tax position is clarified.

BAe said yesterday that the £42.2m net cost of the repayment will be added to the original £150m purchase price for Rover increasing the total cost of the acquisition to £192.2m.

But the settlement is not expected to have an impact on current year profits at BAe because the cost will be charged against the acquisition reserve created at the time of the deal.

The company yesterday welcomed the final conclusion of the controversial Rover "sweeteners" saga.

VW seeks larger slice of market

THE Volkswagen group, Europe's largest carmaker, aims to increase its market share in the UK new car market by around 50 per cent during the next 5 years, Kevin Done writes.

Volkswagen acquired VAG (United Kingdom), the British distributor of Volkswagen and Audi vehicles from Lonrho, the UK international trading group, for £124m at the end of last year. Following the takeover the German carmaker is seeking to expand substantially its presence in Britain.

Together the VW and Audi makes captured around 14.7 per cent of west European new car sales last year, but only 5.2 per cent in the UK.

Mr Detlef Wittig, sales director for the VW brand worldwide and the recently appointed chairman of VAG (United Kingdom), said the company had set a target of capturing 7.5 per cent of UK new car sales by 1998.

In the drive for a significantly higher British sales volume and market share the VW brand is entering into more head-on competition with the leading volume makes in the UK, Ford and Vauxhall.

It is being forced to modify its traditional premium pricing in the UK and to seek higher fleet and company car sales. The group is also planning to increase the separation of the retail sales of VW and Audi brands in the UK.

The overriding foreign policy aim is to win sovereignty over the Falkland islands Page 3

FINANCIAL TIMES SURVEY

ARGENTINA

Efforts are now being made to develop the impressive energy resources Page 5

Thursday May 27 1993

Argentina has found its way, combining democratic rule with radical privatisation of the economy. The challenge now is to make it work – and for the Menem government to provide firm institutional foundations for political life. Stephen Fidler reports

A turn for the better

TO THE visitor to Buenos Aires, today one of Latin America's most peaceful capitals, it seems scarcely credible that little more than a decade ago Argentina was undar military rule.

Its bellicose generals had brought the country to the brink of war with neighbouring Chile and into a disastrous conflict with Britain in the south Atlantic. The military had abducted, tortured and murdered thousands of Argentines under the pretext that Argentina's divided society demanded strong government.

It seems scarcely believable either that four years ago, as the government of President Carlos Menem took office, the country was in the middle of one of its most severa economic crises of the century. With inflation rising to 200 per cent a month, commerce ground to a halt and people took to the streets to protest against food shortages.

Today the military appears a spent force in Argentine politics. Instead of fighting with its neighbours, the government is planning a customs union with Brazil, Paraguay and Uruguay. The Clinton administration in the US has opened the prospect of Argentina's accession to the North American Free Trade Agreement.

The economy is enjoying a stability not seen for many years. Annual consumer price inflation has fallen to single digits, the government has balanced its budget, helped by a threefold rise in tax revenues between 1989 and 1992.

The government is close to completing one of the most radical privatisation programmes ever seen, expected to culminate this year in the sale of the largest company in Argentina, the state oil concern YPF.

Employment by the state and state-owned industry will have fallen from 290,000 at the end of 1989 to 41,000 at the end of 1993, according to economist Miguel Broda.

The economy has enjoyed two years growth of close to 9 per cent and industrial production is at record levels. Debate now rages between those who doubt the change can endure – who see growth driven by a consumer boom financed essentially by privatisation – and those who think Argentina could be Latin America's new economic miracle.

The key to the debate is a law that has put the government into an economic straitjacket. Since April 1991, the Argentine convertibility plan has put the peso on a parity with the US dollar and allowed the central bank to issue currency only if backed by foreign exchange reserves. By limiting the government's ability to print money, the plan has brought down inflation rapidly.

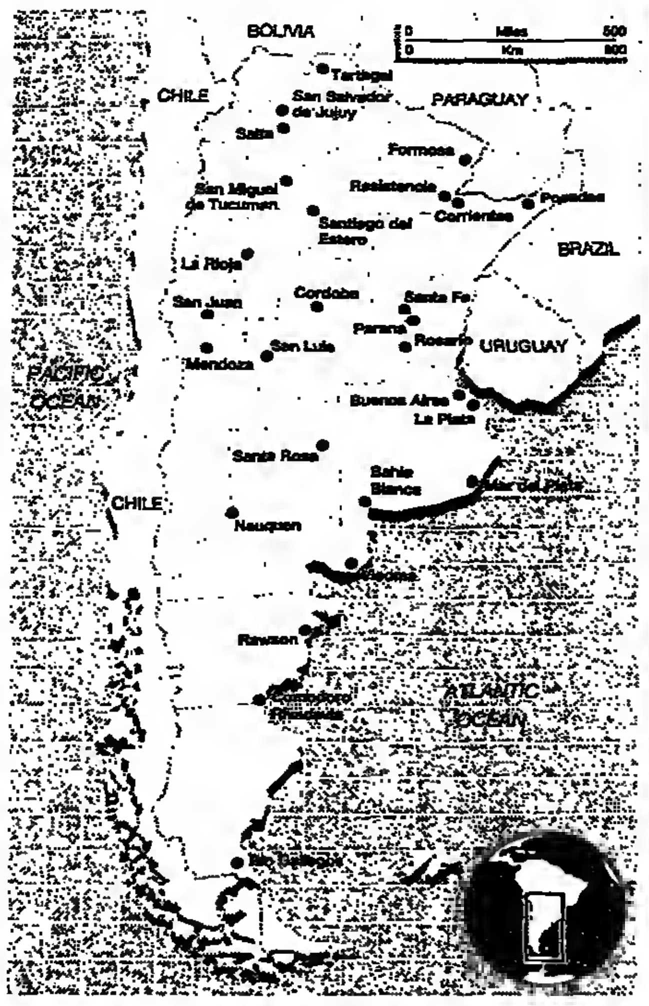
The architect of this programme is Mr Domingo Cavallo, the economy minister, a Harvard-trained economist whose writings demonstrate an obsession with Argentina's economic decline in the 20th century.

Even some of Mr Cavallo's supporters – he is the most popular politician in the government, according to opinion polls – wonder how long the peso's parity with the dollar can be sustained. They point to a growing current account deficit as evidence that the policy is eroding the competitiveness of Argentine exports. Argentine consumer price inflation, while dropping, is still running well ahead of US inflation, making foreign goods cheap in Argentina but increasing the costs of exporters. The current account deficit which the high exchange rate has caused, they argue, makes Argentina dependent on highly volatile inflows of foreign capital.

Mr Cavallo, however, points out that capital has continued to flow into Argentina this year, allowing interest rates to fall. More important, he holds that it would be "madness" to devalue: the competitive edge it would give to exporters would be transitory as inflationary expectations, never far from the surface in modern Argentina, climbed rapidly.

A strong currency is also vital to restructure the private sector so that Argentine competitiveness can be enhanced. If it is to be successful, it will require a revolutionary change in the attitudes of business people who – due to inflation and the protectionist wall that used to surround the Argentine economy – were rarely forced to make tough decisions.

For their part, foreign investors have already shifted attitudes. Helped by the relief negotiated on foreign debt in an accord completed in April, Argentine borrowers have been re-admitted to the international financial markets. Foreign companies – from Europe and elsewhere, including, importantly, the US – have been actively participating in the privatisation of state utilities.



However, it is too soon to say whether the private sector believes enough in Argentine stability to start investing in naw productive capacity to stimulate exports, and in what sectors – apart from agriculture and energy – the country's comparative advantage lies.

Despite these doubts, there appears to be a consensus that the general direction of economic strategy is more or less right, though only the brave would argue that this means the end of the deep conflicts that have marked Argentine politics in the 20th Century. Mr Naldo Brunelli, new head of the trade union confederation, CGT, says: "We think that the changes are irreversible." Mr Cavallo has praised the two leading economists of the opposition Radical party as men who would run the economy very well. Argentina's new economic structure is being depicted increasingly as a project of the state, not of Menem and Cavallo.

This should rednce the uncertainty surrounding the handover of government in 1995, although if Mr Menem has his way, he will succeed himself.

For this he will need a reform of the constitution, but that will require a two-thirds majority in Congress and he can only get that in Congressional elections in October.

Partly because of this, economic policy has been more expansive this year than many expected. For example, a large part of the proceeds of the YPF sale will go to clear arrears to pensioners. The YPF sale, it is widely said, has been brought forward so that the pensioners can be paid before the elections.

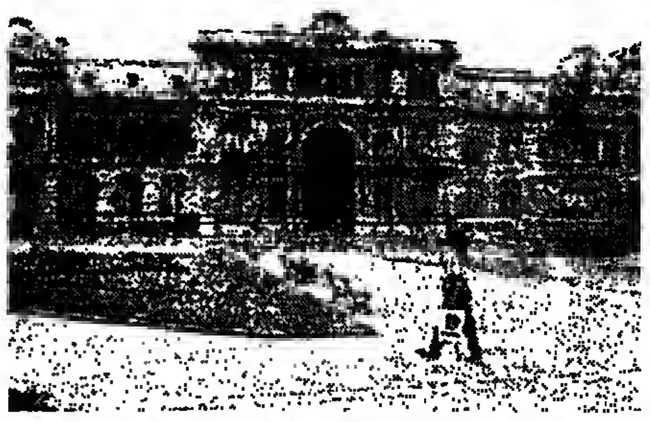
For his part, Mr Menem says he would like another term as president, but adds: "It's not an obsession." Indeed, he has laid less emphasis on his re-election in recent months, conscious perhaps that if he stresses the theme and fails to win the necessary support he could turn relative electoral success for the Peronists into a perceived failure.

Despite the widespread credit he is given for stabilising the economy, there are some who donbt whether he is the man to deal with the next set of challenges likely to face the Argentine government – the development of the institutions of state that remain after privatisation. To critics, he is a man more interested in the exercise of power than in the rules of the game.

Mr Luis Moreno Ocampo, a former federal prosecutor now in the private sector, says: "Just because we have elections, it doesn't mean there is democracy.

"Of the rights guaranteed under the constitution, we have just two: elections and freedom of opinion." This means that concepts important to democracy, such as respect for the rule of law and the independence of the judiciary, are still lacking in Argentina.

Carlos Menem, who was elected president four years ago in the middle of one of the country's most severe economic crises this century, has his offices in the Casa Rosada in Buenos Aires (pictured below)



A lack of public confidence in the judicial system also feeds a public obsession with corruption in government. Much economic reform – the change in the exchange rate regime, privatisation, the strict financial limitations on the government – should reduce future opportunities for corruption.

Yet it still goes on. Past members of the presidential entourage stand accused of corruption. A free press has heightened awareness of an issue about which people feel increasing indignation because their taxes are financing it.

This is not the only priority. As in most countries, education is a central issue. Argentine labour is among the most expensive in Latin America. If Argentina is to be successful as an exporter, productivity needs to be improved through better education.

There is a danger, too, that the success of the economic reform will leave some sectors of the population behind, particularly in those outlying provinces whose governments have not followed the central government in economic reform.

Yet, compared with most of its neighbours, Argentina's problems should be relatively easy to tackle. High literacy and a reasonable income distribution mark it out from much of the rest of Latin America. With its natural resources, it should be a wealthy country.

The economic programme has, by shackling the government, resolved a central paradox: why a deeply conservative population has been ruled for so long by licentious governments.

The key to this change is a single piece of legislation: the law which fixes the value of the peso against the US dollar. For some time to come, confidence at home and abroad in Argentina's economy will hang on the single thread of the convertibility law.

Things have turned dramatically for the better in Argentina but it is not out of the woods yet.

Stephen Fidler reviews the economy

Breakneck pace

ARGENTINA is the latest blue-eyed boy of the Washington international financial institutions. Economic reform has been at breakneck pace and is delivering growth – nearly 9 per cent annually over the last two years. The government's fiscal house has been put in order: tax revenues have increased threefold since 1989 and the government is running a surplus helped in part by Latin America's most radical privatisation programme.

This has happened not under a government where opposition is repressed or muted by the political system, as in Chile during the 1980s and in Mexico, but in a relatively democratic context. Indeed, soma people inside and outside the country are beginning to talk of an Argentine economic miracle. On the face of it, the figures on the accompanying chart suggest Argentina is doing well even when compared with the region's other commonly-cited economic "success stories".

The main threat to this miracle, many people believe, is the lack of sustainability of the policy that has fixed the exchange rate to the dollar since April 1991. Argentine inflation is coming down rapidly – consumer prices rose 17.5 per cent in the year to December and 11.7 per cent in the year to April - but prices are still rising at a rate which puts Argentine industry under severe competitive pressure.

Evidence is said to be visible in a current account deficit which widened rapidly last year to just under 4 per cent of gross domestic product, increasing the economy's dependency on capital inflows from abroad.

Mr Domingo Cavallo, the economy minister who tied the peso to the dollar (and secured a law which prevented the central bank from printing money except when backed by foreign currency inflows), says devaluing the peso would be "madness". The competitive advantages of doing so would evaporate as inflationary expectations, which are highly sensitive to the exchange rate in Argentina, rose.

He argues that if foreign owners of capital are worried about Argentina's exchange rate, they are not showing it. Capital continued to flow into the country during the first four months of 1993.

Furthermore, the effect of the exchange rate on the competitive position of Argentine industry is being exaggerated. Lower tariffs on imports have helped to contain the cost of industry inputs - wholesale prices rose only 3.2 per cent last year.

Mr Cavallo's mind is on other things besides the exchange rate. At the start of the month his ministry issued its plans for further reform and economic projections until the end of the current administration's term of office in 1995.

They project 4.3 per cent growth in GDP for the six years of the Menem term, by the end of which inflation – as measured by the mean of consumer and wholesale prices – will have fallen to less than 4 per cent and 1.6m new jobs will have been created. The economy, Mr Cavallo says, has grown by 18 per cent in the past two years and 670,000 jobs have been created. Inflation when Mr Menem took office was 200 per cent a month.

His objectives for the future will lay "a strong emphasis on savings, investment and jobs", he said in an interview:

● Savings: Huge tax evasion used to mean the incentives for savings were ineffective. The government's fight against evasion of its value added tax has proved successful and 600,000 companies have been brought into the net. Now, the government plans to turn its attention to fighting evasion of income taxes, attempting to bring 2m people, including professionals and self-employed, into the tax net and to ensure they pay social security. This would help raise the domestic savings rate to 20 per cent by 1995 from about 17 per cent now, reducing reliance on foreign savings. According to the government's projections, the dependence on external capital peaked last year and will decline steadily until 2000 when it will fall to zero.

● Investment: The government has already provided help for buyers of capital goods, exempting them from a 10 per cent import tax on imports and provides domestic producers of capital goods with tax rebates on what they sell.

● Employment: There are plans to cut labour taxes. These cuts would deepen with increasing distance from Buenos Aires, to encourage companies to move into areas which have so far seen little economic growth. Incentives would be given to provincial governments to follow central government in simplifying its tax structure. The government is also encouraging the state-owned Banco de la Nacion to provide cheaper credit for small businesses, farmers and fishermen to encourage restructuring in these areas.

Mr Cavallo denies that what is taking shape is an industrial policy. He has no bureaucrat in his office working on these issues. "We still have no industrial policy that helps specific sectors. It's not that we think it's good or bad. It's because the government doesn't have the ability to do this."

The aim is to lay down a programme for the remaining two years of the government and invite the opposition to come up with its own. The minister says he wants to increase transparency of economic policy and reduce uncertainty about a political transition.

In a recent magazine interview, Mr Cavallo not only underlined that the convertibility plan would be maintained without either him or Mr Menem. He further said that leading economists of the opposition Radical Party – such as Mr Adolfo Sturzenegger and Mr Ricardo Lopez Murphy – would be capable of running the economy very well.

There are those who believe Mr Cavallo is taking some risks this year, by pursuing a policy which will avoid recession but heighten the risk of inflation. Mr Miguel Broda, who runs an economic analysis company, says Mr Cavallo has taken a number of measures over the last half year apparently intended to avoid a slowing of growth and raise both demand and supply.

Since September 1992 the government has increased social security payments, given value added tax rebates to exporters and reduced taxes on diesel, announced increased government expenditures, cut bank reserve requirements and given tax incentives to producers and buyers of capital goods. Furthermore, it has promised to use the proceeds from the sale of the state oil company to clear the government's debts to pensioners. This latter move will have a strong impact on consumption, Mr Broda predicts.

This could mean that growth, instead of slowing down to 2-3 per cent this year, will stay above 5 per cent, making realistic the government projection of 6.5 per cent. The gamble is on inflation: many Argentine companies are already running at full capacity. Industrial production has increased 34 per cent since the convertibility plan was introduced and is already running, says Mr Broda, at the highest level in Argentine history.

Mr Broda suggests that Mr Cavallo is seeking strong economic growth this year in order to boost tax revenues. This will allow him to reduce taxes on labour.

He says Mr Cavallo is doing this because 1992 was a lost year for tha government in terms of advancing labour and social security reforms, both of which are meant to improve flexibility of the labour market and lower the non-wage costs of hiring labour. Mr Cavallo says both reforms will be in place by the end of the year.

The social security and pensions reform is with the senate, having passed tha housa of deputies with some modifications. These allow, for example, for people to stay within a state system if they want. The fact thet private pensions will not be compulsory has worried some of the reform's supporters who see it diluting the reforms's beneficial impact. Mr Cavallo says he is satisfied: "We wanted a perfect law. Now it's not 100 per cent but it's a very good law even with the modifications."

Meanwhile, although tha labour law might not be introduced to Congress before the Octobar congressional elections, it would be in place hy next year. While there is evidence that some Argentine industry is responding to low inflation and a strong axchange rate by restructuring, the question is whether it will be enough; rises in wages have been eroding some of the productivity gains. At his economic analysis company, Mr Broda wonders aloud whether Mr Cavallo is betting too high: he now says there is a 50 per cent chance that the current parity between the dollar and the peso will still be in place hy the end of 1994. But if Mr Cavallo wins his bet, the gains could be dramatic.

The government is projecting 54 per cent growth between now and the end of the century. It is too early yet to talk of an Argentine economic miracle, though one cannot be ruled out.

At worst, it may settle into moderate inflation and moderate growth: no miracle, perhaps, but a huge improvement on the 1980s.

Main Economic Indicators

	Mexico	Argentina	Chile
Inflation (Apr-Apr) (cpi)	10.7	11.7	12.0
Growth 1992	2.6	9.0	10.4
GDP 1992 ($bn)	283.0	220.0	36.0
Trade balance ($bn)	-20.5	-2.8	+0.8
Current account % GDP	-6.0	-3.2	-3.0
Reserves end 92 ($bn)[1]	19.2	11.0	9.7
Public external debt (bn)	70.0	62.5	18.4
Investment (% GDP)	20.7	18.7	21.3
Domestic savings (% GDP)	13.8	15.2	19.6
Fiscal balance (% GDP)[2]	+0.5	0	-0.5
Int rate (90-day depos)%	22.0	12.0	18.0

1 Including Gold; 2 Excluding privatisations; + surplus; - deficit
Source: CEAL cited by Ambito Financiero May 12 1993

KEY FACTS

Area	2,766,889 sq km
Population	33.1 million
Head of state	Carlos Menem
Currency	Argentina peso (A)
Average exchange rate	1991 $1=0.95 A
	1992 $1=0.99 A

ECONOMY	1991	1992
Total GDP ($bn)[1]	129.6	154.5
Real GDP growth (%)[1]	8.5	9.0
Components of GDP (%)		
Consumption	77.4	n.a.
Investment	8.2	n.a.
Exports	22.8	n.a.
Imports	-8.2	n.a.
Inflation (% pa)[2]	171.7	17.6
Share prices growth (% pa)[3]	350.1	-13.8
Reserves minus gold ($m Dec)	6,615	n.a
Deposit rate (% pa)	60	8
Total external debt ($bn)	63.7	65.0
Debt service ratio (%)[4]	48.1	n.a.
Trade		
Current account balance ($m)	-2,832	-8,547
Exports ($m)	11,972	11,965
Imports ($m)	7,400	13,649
Trade balance ($m)	4,572	-1,684
Main trading partners (%)[5]	Exports	Imports
US	9.7	28.2
Japan	4.2	6.2
Germany	8.7	9.3
Brazil	12.7	9.9
UK	1.6	1.7
EC	32.0	28.8

1 1992 figures EIU estimates; 2 annual percentage increase in consumer prices; 3 Annual percentage increase in IFC share price index in dollar terms at Dec 31; 4 Total debt service as percentage of exports; 5 Percentage share of trade in 1991.
Source: IMF, World Bank, Economist Intelligence Unit

Privatisation signals radical shift in the economy

Ownership switches

PRIVATISATION has been the linchpin of the Argentine government's economic programme. It has allowed the government to put its budget to rights, brought sorely-needed investment to badly run-down utilities and provided a strong psychological signal of drastic change in Argentina's economic regime.

The numbers are impressive. According to figures cited by Mr Juan Carlos Sanchez Arnau, privatisation secretary in the economy ministry, the companies so far privatised by the government were receiving average annual transfers from the government of $2.1hn between 1980 and 1989. Now, not only have these transfers ceased, hnt the privatised companies pay tax, which ran into hundreds of millions of dollars last year.

The privatisstions so far have raised $5.4bn in cash and $12.5bn face value of government debt has been cancelled through debt equity swaps. A further $1.5bn of liabilities were transferred from the government to the private sector. On top of that, there is a gathering movement towards privatisations hy some provincial governments.

The government, he says, has also been pleasantly surprised hy the investment in privatised industry. "We are monitoring the companies and all started to make investments very quickly. This is one of the most important aspects of the results."

The two privatised telephone companies invested $400m in 1991, $1.2bn in 1992 and – judging from the rate of investment in the first quarter – are expected to make $1.5bn in investments this year. Companies owning privatised roads invested $188m in 1991 and $120m last year. The new owners of the railways will be expected to invest $200m-250m a year; the gas companies at least $200m a year. Even the much criticised sale of Aerolineas has hrought $188m in new investment, says Mr Sanchez Arnau.

For some companies, the transfer to the private sector was just in time. Indeed, the transfer of the Costanera power station in Buenos Aires in March 1992 to Chilean investors led by Endesa was on the day the last functioning generator stopped. Now all seven of the station's generators are working.

While Endesa might not agree, some privatised companies are popularly reckoned to be making a mint. But Mr Juan Masjoan, president of Telecom Argentina – a company jointly operated hy France Telecom and Stet of Italy which made profits of $150.3m after tax in its last financial year compared with $55.2m a year earlier – argues the task the new owners have undertaken is far from easy.

"Everything has to ha changed by 180 degrees," he says. "From an organisational point of view, we took over a government office. It was highly unproductive – productivity was running at one-third of international levels."

There was little or no decentralisation or delegation of authority, minimal training of staff and where computers were being used they were being used badly.

Technologically, the picture was as just as bad: only 10 per cent of the company's infrastructure could be described as "modern", defined as anything less than 10 years old. Yet upgrading the technology may be the easy part. One third of the network was new technology by the end of September 1992. Mr Masjoan estimates that hy the same time this year, more than 50 per cent of the network will be modern.

Mr Cavallo rescued the privatisation programme from disrepute when he took over the economic ministry in early 1991

"The most difficult thing to change in the company are the people. Yon need to develop a customer-oriented service and decentralise without losing control."

Telecom's 16,700 employees (down from 21,205 at the time of privatisation) now work in 19 operating units. One department is weeding out corruption in a country where a hribe until recently was necessary to secure a phone line or to get one repaired.

Another foreign operator, British Gas, took over the gas distribution system in Buenos Aires and hrought over some 35 managers to help get it into shape. It has already reduced the number of employees from 2,000 to 1,300. Senior managers say that in some respects they have heen pleasantly surprised. Some aspects of the network were in better shape than they had expected.

The experience of the users of privatised industries has been varied. Travellers have complained of a deterioration of service on the state airline, for example. Mr Sanchez Arnau says this is now improving. New customers of Telecom must now wait an average nine months (six in Buenos Aires) for a new line, compared with three years before. Repairs are being carried out more quickly and, as mechanical exchanges are phased out, the system's capacity is being expanded.

However, telephone calls are still expensive, particularly long distance and international calls. Long distance makes up 7-8 per cent of Telecom's traffic but accounts for 70 per cent of revenues.

These high rates are encouraging unofficial competition for international calls such as cheap call-back services from the US that are eating into the temporary monopolies granted the new owners when they took over the companies.

The interests of consumers are supposed to be looked after hy independent regulatory agencies. Since ntilities were previously state owned, there is no experience of such regulatory bodies and there is a widespread view that telephone regulation is not working as it should.

The effectiveness of the more recently created water, electricity and gas regulatory bodies is yet to be tested.

Mr Cavallo rescued the privatisation programme from disrepute when he took over the economy ministry in early 1991, halting and refashioning it to increase its transparency. This has quietened some of the opposition to the programme, although on occasions some losing bidders have privately intimated dissatisfaction with the bidding process. But the bidding is only part of the story.

The importance of effective regulation has become paramount: a perception that newly-privatised utilities are using their monopoly positions to exploit the public could damage the government and its economic programme severely.

Another issue has been the lack of sizeable Argentine partners for the foreign operators in privatisations. A predictable handful of Argentine companies appear in just about every privatisation – Perez Companc, Techint and Comercial del Rio de la Plata – because only they have had the size to get sufficient finance.

"There are potential problems emerging in these huge concentrations of wealth and economic power in the hands of a few companies," says a banker from the British merchant bank, Midland Montagu. That, and the development of effective anti-trust legislation, seem likely to be issues for a future government, however.

Stephen Fidler

PROFILE: Yacimientos Petroliferos Fiscales

State oil goes private

SEVENTY-ONE years after it became the first government oil company in the world, Yacimientos Petroliferos Fiscales is set to become the first state oil company in Latin America to be privatised.

Through an enormous offering of shares nationally and internationally, scheduled for early July, YPF will pass into private hands. The sala of the state oil company will cap the Argentine privatisation programme, rendering it almost complete except for the sales of minority stakes in some of the country's already-privatised companies.

The sale will underline the extent of the transformation in the economic role of the state since the Menem administration took office in July 1989. YPF has already been radically restructured. Its workforce of 52,000 in 1990 has been reduced to fewer than 12,000, non-core assets are being sold off as are oil and gas wells in order to dilute its monopoly position.

Yet, the sale of Argentina's largest company raises many political and other questions. As in all privatisations, the government risks accusations that it is selling off the family silver at too low a price. Yet if the government tries to sell st too high a price, there are risks that the sale might fail or that small shareholders are left with shares that fall sharply in value soon afterwards. The Argentine stock market has yet fully to digest the effect of the price collapse of the shares of Telecom of Argentina after a public offering in March 1992.

The government has decided that, unlike in many previous privatisations, it will not sell a controlling stake in YPF to foreign operating companies. This immediately raises the question of who will control the company after the sale of its shares. Even though it will still be the largest stakeholder – the state will retain at least 20 per cent of the shares after the sale with s further 5-10 per cent reserved for the workforce – the government has promised that control will pass to the private sector. The Argentine government seems to have had in mind a British-style privatisation in which the management installed by the state remains in place. However, it is possible that the new shareholders will prefer management led hy someona other than Mr Jose Estenssoro, despite the widespread credit he is given for turning round the former loss-making company.

It will also want to avoid making the oil company the subject of a bid by speculators, aither foreign or domestic, whose aim would be to split up the company in order to make short-term gains. Maximum stakes are, thus, likely to be limited, although if the maximum is set too low it could put off some potential buyers. Mr Russell Herhert, managing director of British Gas's Global Gas division, says his company is interested in a stake in YPF, hut points out that it can make no decisions before it knows the terms of the sale.

While this may be tha government's most important single privatisation, there are some in Buenos Aires who believe that it has increased the risk of failure hy going for an earlier-than-anticipated privatisation.

The timetahle appears to have been guided hy political rather than market considerations, since a third quarter sale was previously considered likely. Congressional elections are due in October and the government has promised to use the proceeds from YPF to pay off arrears owed to pensioners payments in the past.

A sale in early July means a frantic timetable for flotation's global co-ordinators, First Boston and Merrill Lynch. Global investment institutions will over the coming few months also have to digest other large issues including the sale by the UK government of its remaining stake in British Telecom.

Continued on page 3

Political priorities have not interfered with economic orthodoxy

An ability to flout the rules

THIS IS a political year in Argentina. Mid-term congressional elections are due in October. Constitutional reform and President Carlos Menem's re-election bid overshadow the political scene.

But for the first time in many years, political uncertainties have not led to economic uncertainty. It is to Mr Menem's credit that he has not allowed his political priorities to sweep him too far from the path of economic orthodoxy.

He has agreed to potentially unpopular and vote-losing measures, such as spending cuts or closing down loss-making rail services. Mr Rosendo Fraga, a political commentator, explains that "Menem's most important electoral and political asset is the economy".

Opinion polls show steady support for government economic policy, with a 41 per cent approval rating. And the rating of Mr Domingo Cavallo, the economy minister, is 50 per cent - significantly higher than Mr Menem's 38 per cent. The message is that voters will vote for economic stability.

The free market consensus that emerged from the chaos of hyperinflation in 1990 shows no signs of weakening. And it is the government alone that stands to benefit politically from this. Even Mr Naldo Brunelli, general secretary of the CGT labour confederation that is fighting a rearguard action against liberalisation, says: "We think the changes are irreversible."

Paradoxically, there are signs that the government's formerly unassailable political strength is waning. Mr Menem's control over the Peronist party and Congress is weakening. He can no longer count on a submissive rubber stamp to keep laws unchanged. Congress has substantially altered laws privatising the oil company YPF and introducing a private pension system.

The Peronists, Congress and even the government are even more deeply split over the controversial question of labour reform. Reforming the labour market is potentially explosive because it attacks the very origins of Peronism.

The emergence of challengers for nomination as the Peronist party's presidential candidate in the 1995 elections has further undermined Mr Menem's authority. This has made the presidential succession an unavoidable issue, even though Mr Menem's term does not end until 1995.

The challenges are all the more damaging, because Mr Menem still appears as committed as ever to changing the constitution to allow him to stand for re-election. Asked if he wished to continue in power, Mr Menem said: "It is hard to answer this. General Roca, [elected president in 1880] when asked what he wanted to be after being president, said 'to be president again.' And that is what my answer is."

Senator Jose Octavio Bordon, a former governor of Mendoza province in the west, is the first Peronist to openly toss his hat into the ring. Sen Bordon promises "a more profound transformation of the state: more efficient public spending, more decentralisation, more public participation, a more efficient judiciary".

President Menem is bidding for re-election this year

Mr Eduardo Duhalde, Mr Menem's former vice president until he was elected governor of Buenos Aires province in 1991, is another strong - but still undeclared - Peronist candidate. Other candidates include two of Mr Menem's protégés - Mr Ramon Ortega, a former pop singer, and Mr Carlos Reutemann, a former Formula 1 champion. These two politicians were elected provincial governors in 1991 with Mr Menem's backing.

The opposition Radical party's front runner is Senator Fernando de la Rua. His rival is Mr Eduardo Angeloz, the Radical governor of Cordoba province and Mr Menem's challenger in the 1989 presidential election. Both men stress that they too will maintain Mr Menem's economic policies.

Like Senator Bordon, the Radical candidates say they will rebuild Argentina's institutions like the judiciary and Congress, and place a greater emphasis on social and educational policy. They are responding to a shift in voters' priorities.

Mr Luis Moreno Ocampo, an influential former federal prosecutor, points out that Mr Menem's great virtue as an unorthodox politician is his ability to flout rules. This enabled him to break up the corporate state.

But this ability is also his great shortcoming: he has not reconstructed the state's ability to administer justice, provide decent education and health services or establish an efficient and honest civil service.

However, Mr Menem has made some progress. He has introduced oral trials, abolishing traditional written trials which were both slow and vulnerable to corruption. He has also proposed long overdue reforms to the shadowy funding of political campaigns and has even suggested regular, perhaps annual, referenda on principal issues.

Corruption remains a top political issue. Although deregulation and privatisation have removed much of the scope for bribery, businessmen and ordinary people still complain about corruption. The government has been rocked by 20 serious cases of corruption since taking office in July 1989, yet not one has been satisfactorily investigated.

John Barham

The Falkland Islands

Diplomatic talks go on

ARGENTINA is obsessed with the Falkland Islands. Eleven years after its defeat in the 74-day conflict with Britain, the country's overriding foreign policy aim is winning sovereignty over the islands.

In every important speech, President Carlos Menem makes a ritual reference to Argentina's sovereignty over the Falklands. He claims his policy of rapprochement – rather than confrontation – with Britain will enable Argentina to "recover" sovereignty over the islands by 2000.

Mr Menem said: "We will continue talking. In the world of diplomacy one needs great patience. There is no possibility of taking this conflict over the Falklands to a situation similar to 1982."

His aim is to draw the UK into as close a relationship as possible. Stronger trade and investment links with Argentina would gradually reduce the importance of the Falklands to Britain. Eventually, London will have sufficient confidence in Argentina to consider transferring sovereignty.

Several British companies already operate privatised utilities in Argentina. But instead of receding, the Falklands question remains an open sore in bilateral relations.

Argentina continually presses for greater involvement in developing the natural resources. In 1991 the UK agreed to co-operate to conserve fisheries. Last year Argentina began to issue fishing licences, muscling in on the main source of revenue.

Ordinary Argentines are frustrated that Mr Menem's policy has still not led to any talks over the crucial issue of sovereignty. London has remained unyielding in its insistence that co-operation with Argentina does not imply any recognition of its claim to the islands. The UK foreign office says this policy will change only if and when the islands' fewer than 2,000 inhabitants agree to a change in their status.

Last month, Argentina suffered another diplomatic slap in the face when Britain announced it would extend territorial waters to 200 miles around the remote and uninhabited South Georgia and South Sandwich island groups, which Argentina also claims.

Oil is emerging as another source of friction. The Falklands are believed to have big oil and gas deposits and Argentina wants to tie Britain into a joint oil regime. London has ignored Argentina's arguments, and last year licensed two companies to carry out seismic exploration in two blocks around the islands. Britain refuses to discuss oil co-operation until studies confirm the region does have hydrocarbon reserves in commercial quantities.

There is scant chance of a shift in the islanders' virulently anti-Argentine attitudes. Memories of Argentina's three-month military occupation remain fresh.

And Britain has still not lifted its arms embargo on Argentina. London has also successfully persuaded Washington not to sell two squadrons of ageing Skyhawk fighter bombers to Argentina. However, talks are planned later this year to resume training courses for Argentine officers at British military academies.

John Barham

Financial market reform is one of the government's frustrations

Uncertainty over pensions

FINANCIAL market reform must rank among the government's great frustrations. Despite Argentina's dramatic economic recovery, officials complain that few private banks have made sufficient progress in modernisation.

And to the government's undisguised concern, bankers have responded to deregulation by financing a consumer boom. The equity market has failed to recover from a speculative binge last year.

The principal uncertainty hanging over financial markets is the shape of the future pension system, which the government hopes will become a cornerstone of a modern capital market. But pension reform has run into heavy opposition in Congress.

Politicians have already rejected the plan of economy minister Domingo Cavallo to force all employees to pay 11 per cent of their income into individual retirement savings accounts, which would be administered by fund managers.

Instead, Congress has made contribution to private pension schemes voluntary. It has also ordered the government-owned Banco de la Nacion Argentina (BNA) to provide contributors to its pension funds with a minimum dollar-based guaranteed return.

Mr Cavallo maintains that these are only superficial changes, which do not affect the heart of pension reform. He is confident that most people will prefer private pension funds, which he believes will offer higher returns and will be seen as less risky than the BNA's government-guaranteed fund.

Bankers nevertheless worry that BNA's guaranteed return could not only hamper private sector competition but would also fail to lighten the burden of the government's existing pension liabilities. They also wonder how the government can guarantee millions of BNA clients guaranteed dollar incomes, irrespective of the risk of a devaluation.

Question marks must also remain over the wider issue of how much and how quickly the pension system can boost Argentina's savings rate and reduce its reliance on imported capital. Mr Roque Fernandez, central bank president, commented that pension funds "will not bring a phenomenal change. I hope it comes, but I think it will be gradual."

Meanwhile, the equity market, which will one of the principal beneficiaries of a reformed pension system, is in the doldrums. Share prices have been unable to recover from a disastrous price slide that began last June. The Merval market index now stands at less than half its May 1992 high of 882.

The decline has continued this year, spurred by a huge overhang of overpriced shares still held by investors. Share prices dipped sharply in April and May in anticipation of July's planned privatisation of Argentina's largest company, the national oil corporation YPF. Uncertainty over President Menem's re-election bid has also dampened enthusiasm. However, Argentine stocks are still not cheap, with price/earnings ratios averaging about 18.

Market capitalisation of US$18bn is equivalent to only 8 per cent of GDP, a low ratio even by regional standards. Daily turnover rarely exceeds $30m, and the market continues to be gripped by a strong speculative mentality.

Investors are deterred by a narrow market in which liquidity is a problem in all but a few actively traded stocks. Three companies – two privatised telephone stocks and the Perez Companc holding company – account for half of market capitalisation.

Instead of listing, companies are actually departing the market, with only 164 companies now quoted against 171 last year. Thirty years ago, the Buenos Aires market had more than 600 quoted companies. The government's Comision Nacional de Valores checked capital markets regulator has approved more than 30 companies to list, but only a few have come to the market.

Low international interest rates make bond issues more attractive for companies. Salomon Brothers says that last year more than 20 Argentine companies issued $1.97bn in bonds, notes and commercial paper.

> The country's banking system has changed beyond recognition from the chaos and speculative frenzy of the 1980s

Possibly the government's greatest frustration is its inability to force banks to lower interest rates and improve terms for industrial borrowers, particularly for smaller companies unable to approach the local and international capital markets.

Argentina's banking system has changed beyond recognition from the chaos and speculative frenzy of the 1980s. In June 1989, as hyperinflation raged, central bank liquid reserves were a mere $112m. In April, the second anniversary of Argentina's celebrated convertibility law, the central bank's liquid reserves exceeded $10bn.

As a result of the confidence brought by convertibility, bank deposits have risen dramatically and maturities have been stretched out. Last month, deposits – less than half of them in dollars – stood at $29.3bn, against $18bn a year earlier. As a result, lending rose to $41.38bn, against $24.4bn in April 1992.

Banks are immensely profitable. Spreads at about 2-3 percentage points remain high – although they have fallen sharply – and private banks have cut costs aggressively and boosted lending and fee-based income.

For instance, Banco Frances, a locally owned commercial bank and one of Argentina's top five banks, saw its net assets grow 137 per cent to $1.08bn last year, against $378m prior to currency convertibility. Net income in the year to June 1993 is forecast at $47.6m, 37 per cent more than last year.

Banks are less interested in lending to companies, especially small and medium-sized ones. Instead, most of the profit growth is coming from lending to consumers.

Mr Nicholas Grose Hodge, chief manager of Lloyds Bank in Argentina, says "This continues to be a pretty good year for banks, with one notable exception – that bad debts and credit risk are getting much worse." Under an admittedly broad central bank definition, problem loans stand at 4 to 6 per cent of the private banking system's total loans.

The government is trying use the weight of BNA, which is also the country's biggest financial institution, to drive interest rates down. Interest rates vary from a real negative monthly rate of 0.5 per cent on blue chip corporate loans to a stinging real 5 to 6 per cent per month for riskier borrowers.

It has announced that BNA will lend $4.5bn at below market interest rates to small companies and farmers. But bankers sey BNA's afforts are unlikely to have the desired effect, simply because they have little intention of competing in the small company and farm lending sectors.

Neither are central bank capital adequacy regulations making much difference. Central bank regulations require banks charging higher interest rates to set aside more capital. The government believed this would force banks to lower rates. But banks, whose gearing, at about 8 times capital, is low by international standards, have been happy to use their capital as profitably as possible.

Bankers say that the real culprits are inefficient regional banks, most of them owned by provincial governments, which distort interest rates throughout the system. Their funding costs are high, a reflection of the poor quality of their portfolios. Their operating costs are also higher, because few government-owned banks have cut costs sufficiently. The government rejects these claims, stating that banks – private and government banks alike – remain highly inefficient.

Living with stability is becoming increasingly difficult for smaller and medium sized banks, a majority of which flourished in the bad old days of heavy inflation and high interest rates. Argentina still has more than 160 banks of varying shapes and sizes. Many will probably merge, seek out niches in the investment bank market or simply close down.

Some foreign banks with small branch networks have already decided to wind up retail operations. Chase Manhattan has sold its 15-branch network and its credit card business.

Marcelo Podesta, Chase's Buenos Aires managing director, says: "We did not want to invest in systems to get up to the scale the [retail] market required. It is not a priority investment for the bank." Instead, Chase is concentrating on sophisticated financial products and project finance for large clients. The trouble is that with so many banks thinking the same way, competition in the wholesale market is fierce.

Many retail and wholesale banks have taken an increasingly active role in privatisations. Some, such as Banco Rio de la Plata – the country's biggest bank – have taken direct stakes in privatised companies. Others have backed investors in privatisations, underwritten privatisation share flotations, or structured financing for privatised companies' investments.

Mr Fernandez wants banks to adopt greater securitisation of both their assets and liabilities, which would reduce institutions' vulnerability to mismatching or sudden shifts in market conditions. Foreign bankers also expect the market to make increasing use of sophisticated derivative products, such as bond- and equity-linked swaps and options.

John Barham

Continued from page 2

State oil goes private

The company was scheduled to file full details of the sale, including two years of audited results of YPF, with the US Securities and Exchange Commission in early June.

The assets of the company have been put loosely at $6bn-8bn. A banker close to the transaction said that although the eventual outcome would depend on the process of "book building" - under which underwriters determine demand for the shares at a range of prices - it was thought likely that perhaps half the shares offered would go to the United States market, 20 per cent to the Argentine market and 30 per cent to the rest of the world, mainly to Europe.

The flotation of Yacimientos Petroliferos Fiscales on to the private market may raise $3bn.

Stephen Fidler

Farmers are already financially stretched, writes **John Barham**

Shake-out on the pampas

The Mercado Nacional, where 70 per cent of beef production is sold

ARGENTINA'S PAMPAS qualify as one of the world's richest farmlands, where farmers using no artificial fertilisers or agrochemicals still have yields comparable to, or better than, producers in other main farming nations.

Yet, for all their natural advantages, Argentina's farmers are being squeezed by rising costs, falling commodity prices and a new domestic economic scene that is forcing everybody - farmers, bankers, business people - to adjust sharply.

The problem is that most farmers are already financially overstretched or are unable to find sufficient financing at the right terms to modernise their operations. By one widely accepted estimate, about 150,000-200,000 mainly small and medium-sized farms are under great financial pressure and a large number of them are facing bankruptcy.

However, the threat of shakeout on the pampas is more a social than an economic problem. Nobody expects Argentina's grain and oilseed exports to suffer. On the contrary, they are likely to benefit from the market's unrelenting pressure to boost productivity.

Mr Hugo Krajnc, a manager at Cargill's Buenos Aires office, adds that modernisation means not just adopting better farming techniques or buying new tractors, but applying modern financial and management methods. Few farmers use commodity markets to hedge their prices, and too many plan their crops based on last year's market conditions, rather than looking ahead to probable future market conditions, Mr Krajnc says.

Nobody likes the disruption and pain that shakeouts bring. Farmers have reacted with protests, although none of them on the scale of French farmers' demonstrations. However, countless one day strikes in which farmers suspend deliveries to market, close roads and hold town meetings have done little to soften the government's heart.

Until recently, that is. In May, the government announced that farmers will be able to import tractors, trucks and agricultural machinery duty-free. It has also instructed the state-owned Banco de la Nacion Argentina (BNA) to lend farmers and small businesses US$4.5bn this year at below market interest rates.

Farmers still complain that BNA's terms are inadequate. Although BNA's rates are lower than those of other banks, they are still a stiff 16-24 per cent a year in real terms.

Argentina's farmers own about 200,000 tractors, but only 80,000 of them are less than 15 years old. Replacing the most obsolete tractors would cost about $3.7bn. yet holding on to obsolete machinery is also very expensive. More than $500m a year - a sum roughly equivalent to Argentina's annual wheat exports - are reckoned to be lost every year due to waste caused by old machinery.

No amount of special pleading can change distortions in the world grain market caused by the US-EC subsidies war

But no amount of special pleading by farmers or government intervention can change distortions in the world grain market caused by the US-EC subsidies war. According to the Argentine Rural Society (SRA), which groups together the country's big farmers, international prices for Argentina's main export crops - wheat, maize and soyabeans - are about 30-40 per cent below levels of the mid-1980s, when the subsidies war first broke out.

There is little prospect of any improvement prices in the near future.

In fact, prices this year have continued falling for most crops. Wheat prices are now 10 per cent lower than a year ago; corn prices are 5 per cent lower; soyabeans have recovered very slightly.

Reductions in local costs have done little to compensate for the international price collapse. The government has lowered taxes and utility charges and scrapped duties on imported farm machinery, but a tractor still costs the equivalent of 256 tonnes of wheat, slightly more than a year ago. The same applies for other key inputs such as fuel and fertiliser. Financial charges, and other inputs, such as labour, electricity and taxes remain a heavy burden.

The picture is not uniformly bleak. Although the SRA says wheat farmers are struggling with negative net margins of 2 per cent, soyabean farmers now have a 22 per cent positive net margin. Although experts say that farmers are cutting costs, there is still room for further cuts.

It is hardly surprising, then, that wheat output last year fell 11 per cent to 9.9m tonnes and is expected to fall another 6 per cent this year. Soyabean production rose 14 per cent to 11.3m tonnes in 1992, but is expected to fall slightly this year.

Signs are already emerging that these pressures are leading to consolidation of land holdings, especially in the key farming region of Buenos Aires.

Many farms on the pampas are absurdly small by Argentine standards, often measuring no more than a few hundred hectares. Coninagro, a farm co-operative body, reckons that as many as 85 per cent of the farms in Buenos Aires province, which covers most of the pampas, are too small to pay their way. It says a wheat-producing farm must cover at least 625 hectares.

Most of the attention ia focused on the plight of the pampas' farmers, but farmers in distant provinces face even-more dramatic conditions. Sheep farmers in Patagonia, sugarcane and tobacco growers in the northwest and cotton producers in the north all face far greater problems. However, their impact on the economy and political clout are relatively small.

The focus is beginning to shift to the highly inefficient retail and distribution network. The press has discovered for instance, that middlemen boost retail prices by three to four times producer prices.

The effects of the government's privatisation programme is also being felt. Privatised railways are lowering transport costs but privatised energy utilities no longer sell underpriced gas and electricity.

Farmers must become far more efficient in producing traditional bulk commodity crops. Few analysts see much future in high margin produce such as exotic fruit and vegetables. Chile's success in developing markets for these goods in North American, Japan and Western Europe is often held up as an example for Argentina.

Although Argentina could undoubtedly improve the quality and presentation of its existing fruit and vegetables they are hardly likely to replace its staple grain exports. After all, the Pampas are almost designer-made grain and cattle-grazing land.

Stephen Fidler checks the country's current account

Deficit through the decade

ARGENTINA ran a trade deficit last year for the first time since 1981, tbe year before the start of Latin America's debt crisis. Even using the government's own - perbaps optimistic - estimates, the country will be running a deficit in trade of goods and services until 1998 and will oot again achieve a surplus on the current account of the balance of paymeots until 2000.

Forecasts by both government and private sector analysts suggest the current account deficit shoold fall slightly this year. If that bappens it will be to the relief of those io the international financial markets worried less by the absolnte size of the deficit than by its rate of growth.

The government's own estimates of the corrcnt account deficit are usually significantly lower than private sector estimates because of differences in the treatment of earnings on assets held by Argentines ootside the country. Private sector estimates usually put tbe 1992 deficit betweeo $8bn and $8.7bn - less than 4 per ceot of gross domestic product - against under $3bn in 1991. The governmeot's own figure suggest a shortfall of $6.2bo.

Despite an exchange rate fixed against the dollar since April 1991, exports have remaloed ateady at just over $12bn. On tbe other band, imports have surged - encouraged by the stroog exchange rate and Argentina's unilateral lowering of tariffs that have kept the prices of imports down. After a decade of recession too, there was significant pent-np demand, and imports more than trebled in three years from $4.1bn in 1990 to $15.1bn in 1992.

A breakdown of the import fignres suggests sharp growtb not only in consumer goods, bnt also in intermediate goods to provide raw materials for booming sectors of Argentine industry aod in capital goods. According to Ministry of Economy figures, imports of capital goods rose to $5.6bn last year, 38 per cent of all imports, compared with $1.3bn and 32 per cent in 1990.

If that is encouraging, there is no hiding the pain being caused by government policy in some sectors of the economy. Paper, petrochemicals and textiles and soma parts of the steel and farming industry have been hit hard by the opening of the economy to international competition.

From the Argentine perspective, one of the villains of the piece has been neighbouring Brazil. Altbongh imports from tbe US jnmped to $3bo last year from $1.1bn in 1990, Argentines are more concerned about the flood of Brazilian goods into the country. Imports from Brazil last year totalled ahout $3.3bn compared with $718m in 1990.

The problem is seen in part as a consequence of Brazil's recession. In a bid to keep op production levels, Brazilian industry is pushing aggressively priced goods into Argentina.

But it is also a consequence of the two governments pursuing diametrically opposed exchange rate policies. While Brazil is keeping its exchange rate highly competitive to keep exports up, Argentina's fixing of its nominal exchange rate to the dollar makes for a bigh real exchange rate.

Brazil's industries are pushing aggressively priced goods into Argentina from next door

In an attempt to slow the growth in imports Argentina raised last October its so-called statistics tax on imports from 3 to 10 per cent. The move took place in the absence of a developed system of anti-dumping regulations but was viewed as protectionist and probably against the rules of the General Agreement on Tariffs and Trade.

The tax was subsequently lifted on abont 60 products imported from Paraguay, Argentina's partner along with Brazil and Uruguay in the proposed Mercosur common market. And on May 1 it was removed from imports of capital goods. (Capital goods manufacturers were also given a 15 per cent rebate on their sales.)

Tbe problem of import surges may be ameliorated if Brazil, as most forecasts suggest, resumes growth this year. Nonetheless, Brazilian economic instability seems set to remain of concern to the Argentine governmeot. Argentine officials privately do not see moch economic progress in Brazil until after a new administration takes office in January 1995. At the start of that month Mercosur's internal tariffs will have fallen to zero and a common external tariff is schednled to be in place.

Mr Guido di Tella, Argentina's foreign minister, says it is now clear that the common external tariff will not apply to all goods, bnt instead to between 70 and 80 per cent of imports. This is becanse Brazil has shown itself unwilling to lower its higher tariffs oo compnters and capital equipment imports to the likely common tariff level of a maximum 20 per cent.

"There is a problem but not a tragic one. It is anyway to our advantage: they will be less competitive because their industry will have to buy more expensive computers and capital equipment," says Mr di Tella.

It is early days to talk of expanding Mercosur although Bolivia - itself a member of the Andean Pact trade grouping - has expressed an interest. Chile is thought to be awaiting, first, some stability in the Brazilian economy and, second, the certainty that the next government in Argentina remains faithful to the cause of regional integration.

The other big trade integration issue for Argentina is the North American Free Trade Agreement, awaiting ratification this year by the legislatures of Mexico, Canada and the US. Clinton administration officials have spoken of extending the pact to Chile, Venezuela and Argentina. Yet Argentina is committed to talk to the US with its Mercosur partners; and Brazil is likely to remain a restraining influence on the extension of Mercosur for some time to come. The question may therefore arise of where Argentina sees its priorities. That, however, is a question for the future, if it is a question at all.

"The US proposal to incorporate Chile, Venezuela and Argentina into a free trade zone is one thing and Mercosur another," said President Carlos Menem. "Nonetheless, to the extent that we advance in the process of integration, it is possible that in the not too distant future it will be possible to incorporate all four countries of Mercosur into a free trade zone."

John Barham notes that energy is a fast-growing sector

Envy of the neighbours

ARGENTINA has impressive energy resources, but until very recently made little effort to develop them. A virtual state monopoly over the energy sector prevented Argentina from exploiting resources that are the envy of its neighbours. Argentina has:

● Sufficient oil production to meet domestic needs and produce an exportable surplus. Reserves are estimated at about 240m cu m, equivalent to about 7-8 years' consumption.

● Gas reserves of about 560bn cu m, equivalent to *about 30* years' consumption at current rates.

● Hydroelectric power that can be harnessed from ten main river systems and several Andean valleys ideally shaped for building dams.

The elimination of state monopolies, removal of the crushing burden of over-regulation and liberalisation of foreign investment laws has made energy one of Argentina's fastest-growing sectors.

Oil output last year rose 15 per cent to 31.8m cu m. Despite increased consumption, Argentina still exported $924m in oil and oil products, a 21 per cent increase over 1991.

The industry is becoming a magnet for investment and technology. Shell has raised annual investments to $100m a year, up from an average $34m a year in the period 1986-90. Receipts from the privatisation of the entire gas industry, plus substantial chunks of the oil and electricity industries already exceed $6.7bn.

Norcen, a medium-sized Canadian independent oil company, has invested $25m in Argentina, bringing with it technology that had not been applied widely there before, such as three-dimensional seismic prospecting or horizontal drilling techniques.

The private companies' new technology and better management have led to the dramatic improvement in production. But there is still much to be done. The Energy Department says Argentine companies recover only about 20-22 per cent of reserves, against an international average of about 40 per cent.

The government is benefiting from the oil boom in several ways. First, through privatisation receipts and second, from rising tax and royalty flows from private companies. Furthermore, oil exports to Brazil are expected to rise sharply, offsetting its heavy trade imbalance.

More productive investments will also improve the economy's overall efficiency. Fiel, an industry-funded economic think tank, estimates that the state wasted well over $35bn through inefficient investments, much of them in energy, in the period 1970-1991. Fiel says the private sector should be much *more productive* investors than the public sector.

As part of the privatisation contracts, private operators in the gas, oil and electricity industries are required to make mandatory investments. The gas industry alone, for example, must invest $612m in the period 1993-97. However the government believes companies will invest a further $630m of their own accord.

Improved management has been introduced by private utility operators

In oil – where mandatory investments are lower – the forecast is for $7.7bn investments in exploration, production, refining and marketing. Industrial consumers will also benefit from more reliable supplies and lower prices. Until recently, large companies often built their own mini power stations to guarantee electricity supplies for their factories, and sold excess power to the national grid.

However, Mr Jorge Brea, president of Shell's Argentina subsidiary, warns against complacency. He says sustaining growth in energy output "will require a very important, sustained effort. The bottom line is that you cannot take it for granted. It requires hard work, investment and yet more investment."

Investment is also badly needed in energy-related infrastructure. The state-owned gas and oil monopolies neglected maintenance of their trunk pipeline networks, with the result that these systems are operating well below capacity, so any large increase in gas and oil output will further strain capacity.

However, the construction of a 15,000 cu m capacity pipeline to Chile which will come on stream next year will relieve overload on the transport network in the south of Argentina. The increased oil production will be exported to Chile, while maintaining supplies to the big energy consumers in Buenos Aires.

The impending privatisation of state-owned oil giant YPF should further improve efficiency. Mr Jose Estenssoro, YPF's president, has devoted most of his energies to restructuring the company to prepare it for privatisation, but spent less time improving its efficiency. Financial market analysts say that YPF's productivity and output should improve considerably when it is transferred to the private sector.

The impact of improved management introduced by private utility operators is impressive. When the government transferred last year Central Costanera, one of Buenos Aires' big thermal plants, none of its generators were working but now all seven are working perfectly. Private utility operators – all of them foreign – have also cut down on wastage through leaks and energy theft.

This year will also see the privatisation of several hydro dams – including the big Rio Limay complex in southern Argentina – and the Transener national grid company.

The Yacyreta dam, built across the Parana river together with Paraguay, should at last begin producing electricity this year. The 2,700 MW dam was designed 20 years ago and has cost about $12bn. Originally budgeted at $3.75bn, it has come in six years behind schedule. President Carlos Menem declared he dam a monument to corruption.

As Yacyreta and the 1,400 MW Piedra del Aguila dam in the Andes both come on stream, the danger of power blackouts – all too frequent during the past ten years – should become a thing of the past.

The government is also playing with the idea of privatising the operation of its two nuclear power stations. The proceeds would be used to complete Atucha II, the country's third nuclear plant, which has been delayed for over ten years by budget difficulties.

BUENOS AIRES: one of the world's expensive cities

Measured on the Big Mac index

THE celebrated Big Mac index, invented by The Economist magazine, suggests Argentina's exchange rate is heavily overvalued and helps to explain why Buenos Aires is one of the world's more expensive cities.

A Big Mac hamburger bought at the McDonald's on Calle Florida, Buenos Aires' busy shopping street costs $3.60. In New York, the same hamburger made with the same ingredients to an identical recipe costs $2.28. Conclusion: Argentina's peso is 58 per cent overvalued.

Foreigners must contend with prices of goods and services that are uncomfortably reminiscent of western Europe, but whose quality is unmistakeably Latin American. Infuriatingly, complaints about high prices are often met with supercilious replies like: "The dollar is worth nothing in Argentina".

Arguing that the peso is overvalued is heresy. Economy minister, Domingo Cavallo, says he will never devalue, despite inflation of more than 40 per cent since congress passed a law fixing the exchange rate at one peso to one dollar in April 1991.

The official line is that Argentina will always be an expensive country because it is more developed than its neighbours. Its workers are better educated and more productive (a claim questioned by some international companies with operations in Brazil and Chile). The exchange rate, therefore, is here to stay.

The lively theatre and restaurant district in downtown Buenos Aires

In a way Mr Cavallo is right. Devaluation in Argentina is practically impossible. This is because the US dollar is Argentina's real currency, not the peso. Prices may be quoted in pesos, but all the underlying calculations are still made in dollars, a habit picked up over the years of heavy inflation. Any nominal devaluation would lead to a spurt of inflation that would depress the exchange rate, leaving it unchanged in real terms.

In recent weeks a debate over the meaning of the Big Mac index has raged in Argentina's media. Certainly, the Big Mac index is more revealing than one would think. McDonalds says that it charges more for its hamburgers because its inputs – bread, beef, wages, taxes, rent – are more expensive than in the US. This is improbable. Pedro Lacoste, a Buenos Aires business consultant, argues that the Big Mac index really shows that MacDonalds is charging a hefty premium, not that the exchange rate is depressed.

He says McDonalds is a relatively recent arrival in Buenos Aires. Its restaurants are in prime locations and appeal to upper middle class families fascinated by the American way of life and prepared to pay prices 58 per cent higher than in the US.

Juan Llach, economic planning secretary, and one of Mr Cavallo's most trusted lieutenants, says the only thing the Big Mac index proves is that consumer prices are distorted by a hugely inefficient retail network. He also thinks McDonalds has margins of more than 50 per cent. Mr Llach says that like other retailers – providers of services and non-tradeable goods who are exposed to little competition – McDonalds has been able to raise its margins with impunity.

Others would add that they are raising their prices in response to a consumer boom, the like of which Argentina has not seen on over decade. As a result, retail prices have risen by more than 40 per cent in two years in dollar terms, while producer prices have increased by only 9 per cent. And booming consumer demand is still pushing retail inflation up by about 1 per cent a month.

Although visitors are horrified by the prices charged in Buenos Aires, Argentina's exports have not collapsed – as one would expect if the exchange rate had fallen by half. This is because the price of industrial and export goods has increased in line with wholesale prices. And ferocious import competition keeps wholesale prices firmly linked to world inflation.

Last month the government published revised data showing that Argentina's gross domestic product – the sum of goods and services produced in a year – rose to $226.64bn in 1992, a nominal rise of 25 per cent over 1991. This impressive, not to say surprising achievement, makes Argentina the wealthiest country in Latin America, a fact frequently quoted by President Carlos Menem in his speeches.

Here again, the facts are less conclusive. After all, according to the government's own calculations, GDP was a mere $68.92bn in 1990, a year when hyperinflation destroyed Argentina's currency. Clearly, hyperinflation distorted the data. However, it is just as likely that today's exchange rate is also distorting GDP figures in the opposite direction.

Retail inflation is rising by about 1 per cent every month

In fact, Argentina's GDP may be overstated by about 15 per cent. The government's figures show that income per head last year was $6,870. But according to data published by The Economist newspaper, this was worth only $5,930 because Argentina's cost of living is so high. Therefore, in purchasing power terms, the economy is only about $190bn, much less than the government claims.

John Barham

Industrial companies are responding to foreign competition

Room for more cost-cutting

INDUSTRIALISTS say their message is at last getting through to Mr Domingo Cavallo: market forces alone will not be enough to transform Argentina's obsolete and uncompetitive industry. Mr Cavallo does seem to have begun shifting away from a *laisser-faire* to a more interventionist approach.

The main changes are:

● Loans bearing below-market interest from the government's Banco de la Nacion Argentina (BNA) worth $4.5bn this year, will be targeted mainly at exporters, small businesses and farmers.

● Companies can import capital goods duty free, at a saving of at least 10 per cent. Domestic capital goods makers are entitled to a 15 per cent subsidy.

● Last October's imposition of a 10 per cent surcharge on all imports (now waived for capital goods), a move specifically designed to increase industry's protection from imports.

However, Mr Cavallo is quick to deny that these changes represent a shift back towards statism. His point is that having achieved macro-economic stabilisation, the government is now able to turn its attention to micro-economic issues that it previously had to ignore.

Mr Cavallo's efforts to redirect bank lending to industry and create a broader capital market are encountering considerable obstacles.

Despite the government's greater interest in industrial policy, businesses are aware that there will be no return to protectionism. They see Mr Cavallo's refocusing as little more than fine tuning.

The corporate scene varies immensely. Industries insulated from external competition such as cars, or those in the service sector, such as telecommunications, or those in the booming consumer goods market, are reaping vast profits.

But exporters or companies facing import competition – especially from Brazil – must contend with an uncompetitive currency and one of the world's freest trade policies, despite a hefty rise in import duties last year. The paper and pulp, steel, textile and petrochemicals industries are suffering the most, but Mr Cavallo has rejected demands for special breaks for these industries.

Companies are responding by aggressive cost cutting and productivity drives. IBM, for instance, has been able to maintain its 6 per cent margin on its exports of magnetic tape units and printers. All staff are on some form of performance-related pay. Still, Mr Ricardo Martorana, IBM's president, says there is still room for yet more cost cutting.

Even a medium-sized company like SICA, a family-owned electrical company, is biting the bullet. Mr Cesar Wengrower, its vice president, says he has had to cut his workforce by a 20 per cent and boost sales by 20 per cent to hold his margin at 7 per cent of sales.

The car industry remains the big exception to the government's free market principles. The industry is protected by import duties of 20 per cent and quotas limiting import penetration to 9 per cent of the market.

Manufacturers may, however, import cars and pay a token 2 per cent duty. Individuals can also import cars, but faces 20 per cent tariff. the effects of import liberalisation can be seen on the streets of Buenos Aires, where imported cars, once rarities, are now a common sight.

Trade in cars between Argentina and Brazil is carefully controlled. Bilateral car trade is set at 40,000 units a year, and trade between the two countries must be balanced. However, recession in Brazil and boom times in Argentina led to a 20,000 vehicle shortfall in Argentine exports to Brazil.

Mr Edward Orsini, vice-president of Autolatina, the Volkswagen-Ford joint venture with factories in Argentina and Brazil, says Argentina's car regime is no more restrictive than other countries. And, as elsewhere, car industry policy is a delicate issue because car companies employ many people.

The corollary of protection is regulation: for example, car companies may now be able to import more, but they must balance their trade, no easy task when Argentina's productivity still lags leading markets by about 30-50 per cent.

However, the car industry is making progress in closing the productivity gap. Autolatina has been able to hold its margins steady for the last two years, despite sharp increases in labour and other fixed costs.

The industry's output last year hit a record 261,942 units, up from just 99,639 in 1990, the worst year on record. Mr Manuel Antelo, president of CIADEA, the smallest of Argentina's three carmakers which makes Renault cars under licence, says "this bonanza will last for many years". He says that Argentina could be building 500,000 units a year within three years.

The recovery brought Autolatina into the black in 1991 for the first time in a decade. CIADEA expects a $80m-100m 1993 net profit on sales of $1.4bn. Improved trading conditions are drawing companies back to Argentina.

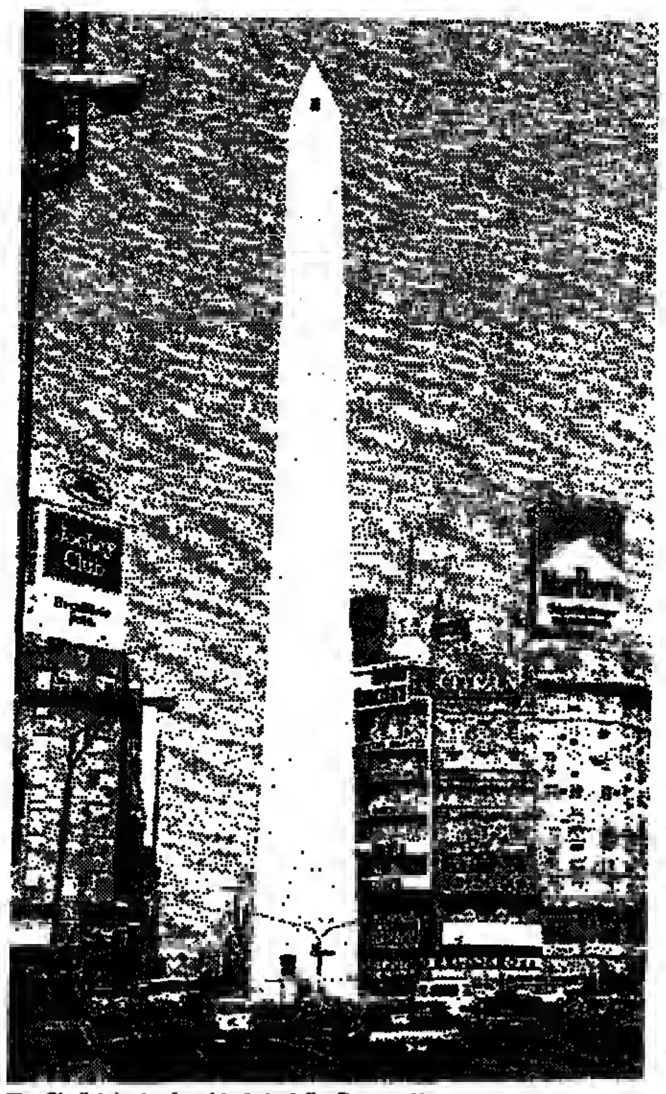
In May, General Motors announced it would invest $100m in a pick-up truck plant in Argentina, 15 years after quitting as the country sank into political anarchy. CIADEA, GM's local partner plans investments of its own of about $150m in 1993-94.

Industrial investments like these are desperately needed to shore up Argentina's lopsided trade structure: 70 per cent of its exports are primary goods, but nearly all its imports are industrial products.

Most of the investment seen in the last two years has taken the form of incorporating new equipment rather than greenfield expansions. Trade data show that imports of capital goods in 1992 rose to $3.87bn, twice the previous year's level and the highest figure in over 20 years.

Just as important, companies need to develop modern management techniques. One Argentine executive commented: "Private company management leaves a lot to be desired. Managers are complacent: they must change their mentality. The changes that Cavallo is trying to bring require new management skills."

John Barham



The Obelisk in the Avenida 9 de Julio, Buenos Aires

George Philip examines recent reforms in the context of Latin America

Trick is finding something to offer

PRESIDENT MENEM has done much to change the way in which we think about Latin American politics. It used to be so much simpler.

On the left were the populists. They made growth and the redistribution of income their top priorities. They resorted to unorthodox financial policies and heavy state intervention. The result was a short-lived boom followed by rising inflation, popular discontent and – not infrequently-military intervention.

On the right were the economic liberals. These deflated the economy, repressed those who resisted, and encouraged private investment. The result was to restore economic growth, but at a high social price. Because the price was so high, successful right-wing policies were associated with authoritarian governments – Pinochet in Chile, or the PRI in Mexico. Democratically elected governments adopting such policies – Collor in Brazil, or Perez in Veoezuela – risked real disaster. Because they were so unpopular, policies of liberal capitalism were consistently rejected by democratic electorates.

At the beginning, Menem was seen as a populist. In some ways he still is. He is, at any rate, still reasonably popular. For an Argentine president well into his fourth year in office,that is an achievement in itself. Yet, his economic policies are, in some respects, clearly liberal. Orthodox finance, the abandonment of Third World causes, radical privatisation and serious efforts to collect taxes have not until recently ranked high on the list of policies calculated to increase the popularity of Latin American presidents. So what has Menem done, and why has he got away with it?

The trick has been to find something to offer people at most levels of Argentina society within a policy context acceptable to the most strategically-important sector, which is the Argentinian business class. Menem started with an advantage not so readily available to the presidents of genuinely poor (as opposed to poorly-managed) countries.

A lot of money was in 1989 held abroad by Argentinians, and Argentina still had a large national private sector. If he could win business confidence, Menem could bring a large inflow of capital into Argentina without risking the accusation that he was handing over the country to foreign ownership.

His method of attracting the return of capital was by radical privatisation. It helped that he had television channels to privatise. The buyers were not likely to evaluate Menem's policies. Of greater economic importance was the sheer magnitude of the sell-off. From 1991 to 1994 inclusive, privatisation receipts are on course to total around $16bn. This amounts to some $4bn. a year. By way of comparison, the total Argentine import bill in 1990 was just over $4bn.

At the beginning Menem was seen as a populist and in some ways he still is – he is, at any rate, reasonably popular

The point about privatisatioo on this scale is that it is not merely a way for the government to raise money or to improve the performance of some specific sectors of the economy. There are macroeconomic conseqoences as well. Inflows of capital of this amount will raise the exchange rate and allow an increase in imports. Argentine imports have trebled since 1990.

Economists may regard rising imports with alarm, but from a political point of view they are very helpful. Middle class Argentinians can afford whisky and designer clothes. Poorer Argentinians can make a living by marketing them. Meanwhile a rising real exchange rate has helped the government to bring the rate of inflation down dramatically while inflicting little real pain. Since 1990 sharply falling inflation has been associated with steadily growing GDP and rising standards generally.

Nor are these benefits necessarily for the short term only. The buyers of privatised assets have had to agree to invest heavily and they are now beginning to do so. Most state-owned assets have in fact suffered from neglected over a loog period, in addition to being poorly run. The potential for increases in efficiency and therefore profitability is considerable.

In some cases there are also direct balance of payments advantages. For example, Argentinian oil production is rising steadily and there are stories of private sector companies earning huge and easy returns from introducing secondary recovery techniques for the first time into newly privatised oilfields. Meanwhile the government is disembarrassed of loss-making stated companies and it can concentrate its budget on providing benefits and necessary services for poorer Argentinians.

These reforms are very important, but Menem is only a free market liberal up to a certain point. There has been no attempt, as was the case with Pinochet's Chile, to reorganise the whole society around market principles. Labour laws still make dismissal difficult, and state companies wishing to reduce their staff – YPF for example – have spent fortunes on compensation packages. Some foreign buyers of state assets, thinking that they could hire and fire at will, have at times been rudely surprised. Tight labour laws have also helped real wages to rise since 1990, since economic restructuring has not led to serious unemployment.

Neither has Menem ended a particularly Argentinian practice, according to which the main trada unions actively administer very large social welfare budgets. Instead proposals exist to allow these unions to participate more actively in the capital market, in association with the local financial sector. In Argentina at least, pension funds may be much more secure in the private sector than in the hands of the state. In 1989 an Argentinian minister revealed that some $65bn. of pension funds had disappeared from state coffers without trace.

Menem therefore retains good contacts within the CGT and within the Peronist organisation. Unlike Perez in Venezuela he retains the confidence of most of his own party. He can still get crucial laws through Congress. He is, in short, still very much a Peronist with a belief in national unity who retains the confideuce of people who voted for him.

There is in Argentina, as in much of Latin America, a considerable popular attachment to corporatist institutions coexisting with disrespect for the public sector itself. Menem has dismantled much of the public sector, but has shown no hostility to corporatist ideas as such. This is an interesting combination which may be more appropriate in Latin America today than either pure populism or dogmatic economic liberalism.

Dr George Philip is Reader in Latin American Politics at the London School of Economics

John Barham finds the film industry enjoying a renaissance – and in crisis

Celluloid keepers of conscience

ARGENTINA's film directors enjoy prestige, influence and an international reputation to which few of their Latin colleagues can aspire. Directors, such as Ms Maria Luisa Bemberg, are internationally respected. Mr Luis Puenzo won an Oscar in 1986 for *The Official Story*. Mr Fernando Solanas won a Cannes prize in 1988 as best director.

Directors have become the keepers of Argeotina's conscience. Far too many Argentines would prefer to forget about the people who "disappeared" during the 1976-83 military regime, or ignore the poverty and despair that economic change is bringing.

The industry seems to be going through a renaissance. Sut the truth is that Argentine cinema is perhaps facing the greatest crisis in its history. Like everywhere else in the world, people are making fewer visits to the cinema and watching videos or cable TV more.

The problem is that this trend has been more prominent in Argentina than in most other countries. Twenty years ago, Argentina had more than 3,000 cinemas. Today it has about 260. In contrast, there are about 1,400 cable TV companies, and video clubs proliferate on every street corner. Less than ten years ago, a successful locally-made film could sell over more than 2m tickets. Today a successful film sells 400,000 tickets. Few films sell more than 100,000 tickets.

Mr Fernando Solanas, the angry old man of Argentine cinema, worries that people who are not able to create their own images are too weak to defend their own cultural identity. "We are condemned to consuming images from abroad, but there is no reciprocity. They do not accept out images."

Still, Argentines remain great cinephiles. But instead of going to the cinema they are watching films at home. The trouble is government film subsidies are tied to the number of cinema tickets a film sells. The fewer tickets sold, the less government money it gets. And government support is vital to making films almost everywhere outside Hollywood.

Mr Luis Puenzo, who made *TheOfficial Story* and *Old Gringo*, gloomily predicts that Argentina will not make much more than half a dozen movies this year. In the postwar years, it turned out a film a week.

Films these days need international support. Mr Luis Cesar d'Angiolillo, whose *Matar el Abuelito* was co-produced with Spanish TV, says: "It's difficult to make films in Argentina. For us, it's a very expensive activity, although for the rest of the world our costs are very low."

As well as money, these co-productions attract big names which help independent productions compete with Hollywood films. Also,international backing gives directors a chance to broaden their range. Puenzo made a $15m film version of Albert Camus' *The Plague* in Buenos Aires, starring William Hurt with 80 per cent of the $15m budget covered by French prodncers. Maria Luisa Bemberg's new film, *De Eso no se Habla* (We don't Talk About This), stars Marcello Mastroianni in an Argentine-Italian co-production.

Argentine films tend to be bleak if not apocalyptic, with an occasional tendency to becoming ponderous and prolix. Tristan Bauer's *Despues de la Tormenta* – a film about despair, decay and poverty is as powerful as it is depressing.

Luis Puenzo says he chose to set *The Plague* in contemporary Latin America becanse, "the plague is in the last instance, evil. This relates indirectly to what happened to us with the military. The plague is an ambiguous, hidden, ill-defined evil. The central theme of the book and the film is that the plague always returns. The bacillus never dies."

Mr Solanas dispensed with subtlety in his latest film *El Viaje* (The Journey), a long-winded satire on modern Latin America. It tells the story of a young man's search for his missing father. On his travels he encounters Buenos Aires awash with greed and corruption. With the deft use of special effects, the city is shown flooded with sewage.

Mr Solanas makes harsh criticisms of Mr Menem, who, predictably, is suing him for slander. Solanas' career gives an idea of the skills Argentine directors need to survive. In the 25 years since *La Hora de los Hornos*, his first feature film, Mr Solanas was exiled for eight years and has made only five other films. He says: "A film maker is an organiser who has to do everything. *El Viaje* was filmed in five countries and took five years to make. I may not make another film for two years."

A scene from Solanas's film The Journey

Still, Argentina's film industry is unlikely to die. Mr Puenzo says 2,500 people are studying film making, plus countless thousands more studying drama. And successful Argentine directors invariably come home. Mr Puenzo says he wants his next project to be a low budget film made in Argentina, spoken in Spanish, with Argentine actors and dealing with Argentine themes.

TECHNOLOGY

USER PROFILE
Westlands is a state school in Torquay which has pioneered work in using expert systems software in teaching other subjects as well as computing.
Nature of Business: The education of 1,200 pupils in the area around Torquay, Torbay, Paignton and the Newton Abbot area. There is a staff of 78 teachers and 15 auxiliary staff.
Budget: School budget is £2.1m per annum including salaries. The newly refurbished computer centre cost £12,000: the computer department has an annual budget of £1,800 covering purchase of four computers a year, books, running of PC network, etc. Other departments buy their own computers which are connected to the network (worth around £15,000).
Key Personnel: Head teacher Griff Madoc-Jones, David Bowles, senior teacher (curriculum and technology co-ordinator), Geoff White, head of computing and cross-curricular IT.

TECHNOLOGY FILE
Software: The Crystal expert system from Intelligent Environments is used both by White and pupils to build systems for use in the classroom in subjects other than computing. Westlands holds a 10-user licence, funded by Devon Education Authority at a discount price of £600.
Hardware: A PC network of Nimbus PCs from Research Machines, plus a CD-ROM server and Nimbus 286 server. There are 14 machines in the new computer suite at the Upper School and a further seven networked around the school in geography, English, science, home economics, careers and the library, which are in constant use.
There are also four Nimbus standalone computers, and a couple of Research machines notebooks, all compatible.
Supplier: The Crystal software was developed by Intelligent Environments, founded in 1985 and based in Sunbury on Thames. IE had a turnover of £3.5m in 1992, up from £2.9m in 1991. The company employs 35 people in the US, from where it derives 60 per cent of its income. More than 8,000 licences have been sold to developers, resulting in 300,000 runtime (or user) licences, 100,000 of them for NatWest's Pharos system.
Cost of system: Crystal usually costs £1,295 with a "fast start" version including examples at £1,495. Ten runtime licences (for users of developed expert applications) cost £2,000.

A school in Devon is using knowledge-based software in subjects from geography to English to help students think more deeply and objectively, says **Claire Gooding**

Making lessons Crystal clear

Next term, some of the youngest consultants in the country will come out of their classrooms. Students from Westlands Upper School in Torquay, Devon will be talking to businesses in the surrounding Torbay area, armed with a computerised expert system called Pharos that gives advice on trading in Europe.

The students seek a first-hand understanding of economics, in which the computer system is a useful tool. If the plan works, the dialogue that takes place should benefit students and businesses alike.

Pharos belongs to National Westminster Bank, which has been advertising its services on television as an aid to business. For Westlands pupils, the knowledge-based technology on which Pharos is based – a software product called Crystal – is a familiar classroom tool. The pupils have used it for 18 months as an integral part of the work and in line with the requirements of the National Curriculum.

Crystal is widely used in commerce and higher education to create expert systems, but Westlands is the only school in the country to have licensed a copy. Its existence there is largely due to the head of computing, Geoff White, whose enthusiasm has led Westlands to set up Cress, the Centre for Research into the use of Expert Systems in Schools. White developed an interest in expert systems while taking a Dip. Ed and M. Ed in educational computing. He has experimented with several generations of systems, including the knowledge-based tools Linx and Adex.

Crystal, he discovered, was the only product with the power to provide interactivity beyond the simple yes and no choices usually displayed. A powerful "expert system shell", Crystal allows for measurements, calculations and other interactive information on which it bases its decisions.

The verdicts delivered by the system are based on pre-programmed rules, the common principle of all expert systems. White programs these rules into systems designed as teaching aids for geography, history, science and other subjects.

An early use for Crystal was to help pupils define and find likely sites for Anglo-Saxon settlements. "You don't have to spend as much time as you'd expect teaching computing, because they do it intuitively," White says.

One of White's Crystal programs, Facsite, is used to combine geography and map-reading with information technology.

Class 10G is the first to use the new, purpose-built computer centre at Westlands. The class, a mixed-ability group of 15 fourth formers – year 10 under the new educational

SOFTWARE AT WORK

grouping – is using Facsite as a follow-up to a more conventional geography lesson. The task is to find a good site for a new factory, starting with a map. The one handed out first is of Tamworth, West Midlands and district.

The pupils sit in clusters of two or three at the screens, each group sharing an Ordnance Survey map. As well as being a practical exercise in map-reading skills, Facsite deals with questions involving everything from geology to local demography which come into play when siting a factory. It raises questions about the relief of the land, the nature of its surface and drainage, population and transport services, land prices, unemployment levels and planning permission. Each screen displays a question and asks for some input, such as a measure of the local population, giving an equation based on land area. Pupils calculate the answers and feed them into the system. Then, unless Facsite's answer rules out the site, it is on to the next question. "The first thing I look for is flat land, but it mustn't be marshy," explains 15-year-old Mark Walker. "Then we look at the roads. We've done this before on paper, but it's much more interesting using the computer."

Class 10G's teacher, John Birch, is head of humanities and geography at Westlands. After 20 minutes going from group to group, he calls the class to attention to explain a question of geology in one of the maps. Teaching with Facsite is an interactive process and Birch sees the computer system as a valuable motivator. "Anything that's a visual helps lower-ability pupils, but the classes must be small," he says.

Birch has to keep an eye on fulfilling the National Curriculum checklist of 114 "statements of attainment" (including IT) in his subject. "This sort of lesson takes longer, but they are finding the answers for themselves."

That, says White, is what makes Crystal so valuable. "It's the interactivity that punches the message home. In the paper exercise it is easy to write 'it must be near a railway station'. But the system makes them quantify and question: how near? ... It makes them think objectively and a lot more deeply if they use an expert system, or even better, write their own."

Writing an expert system is a matter of developing and defining the rules inherent in decision-making. Crystal provides the framework, or "shell", with screen windows and help screens ordering and refining the process. White believes this has given pupils an understanding of issues – for instance in another Crystal exercise, the crisis a nomadic tribe might face if it stays in one area too long.

"It makes them see the consequences more clearly because they decide on the input," White says.

The teaching of computing is currently in flux, with current courses being scrapped in September 1993. IT and computer studies used to be a GCSE, a largely theoretical course. CLAIT, Computer Literacy and Information Technology is a more practical course, embracing database, apreadsheets, videotext and desktop publishing.

Tbe new courses are on IT (resembling CLAIT), and Information Systems, a more broadly based course, of which White approves. "It's much more tuned to giving an understanding of IT in business, dealing with the communicatioo and handling of information." The new courses will include modelling with spreadsheets, educational games, measurement and control and applications and effects of computers in modern society.

It is the job of David Bowles, senior teacher in charge of the curriculum, IT and technology, to oversee the introduction of the National Curriculum courses. He has seen the teaching of computing progress from an O-level in 1980 – which involved five weeks of computing history and a remote link to a mainframe – to the new package-based teaching. "In the big world outside people use IT to solve a problem, not for the sake of it. It makes sense to teach it the same way."

"Children get blasé very quickly about new technologies such as videos. Computing might go the same way unless we use it wisely, which is to develop computing as a cross-curricular subject. They learn their IT in geography, history, English, science and mathematics, almost all subjects. Geoff does more cross-curricular teaching than anyone else."

Taking IT for granted is part of modern education. When the pupils go out armed with Pharos, their confidence at the screen might be as important as any knowledge about trading in the single market.


Geoff White believes Crystal helps his pupils to think more objectively

■ BUZZWORD
EXPERT SYSTEMS are also known as knowledge-based systems, KBS. An offshoot of early artificial intelligence (AI) research, they are rule-based, using the answers entered by users to refine the information and prompt the next question. An expert system "shell" such as Crystal provides the KBS developer with a framework linking questions, rules and screens. The rules are often derived from one human expert and can include uncertainties, usually expressed as percentages.

CONSULTANT'S CRITIQUE

No school that I know of restricts pens and pencils solely to the art department. Sadly, few schools are as enlightened about computers. Many systems are still the exclusive province of the maths or design & technology department. Westlands School demonstrates that computers have more general application. IT is integrated into other subjects as an enabling technology.

Whilst computer programming can be regarded as a discipline, the use of a computer is far more general. In my opinion, expert systems have been the most disappointing area of the computer industry in the past 10 years. The theory of rule-based systems is attractive – the computer makes decisions based on patchy data. To do this, it needs an array of knowledge extracted from experts in the field and weightings to know what information is important.

White has been extremely innovative in his use of the various software tools available. Westlands School has used Crystal well. How transferable this case is to a typical business scenario is dubious. Nat West's use of Pharos seems to me to be more of a marketing tool than a serious business application. Expert system shells such as Crystal impose a level of discipline. They are useful for identifying what you need to know to make a decision. Whether they are of value in making that decision is a matter of conjecture.

One reason often stated for the apparent rarity of expert systems is that they give such competitive advantage that companies are reluctant to talk about them. This is disinformation. Expert systems that deliver real customer benefits have become common knowledge very rapidly.

The real lesson from Westlands School is that a good manager with vision, such as White, makes all the difference.

Highlights of this study are:
- **IT is a tool for all areas of business, not just finance;**
- **Expert systems may be useful for imposing discipline on problem-solving;**
- **Managers with vision make the difference.**

Kevin Grumbell
The author is a consultant at Software Design and Construction, of Milton Keynes

MANAGEMENT: MARKETING AND ADVERTISING

A universal message

Pan-European ads are increasingly common, writes Gary Mead

In a dismal period for worldwide advertising generally, pan-European campaigns for branded products represented a significant bright spot last year.

According to Euromarketing, Advertising Age's London-based weekly newsletter, the top 100 pan-European brands in the main EC markets in 1992 increased their TV advertising spending by 28 per cent. The $5.3bn (£3.5bn) paid out by the big spenders amounted to 42 per cent of all TV advertising in Britain, France, Germany, Italy, the Netherlands and Spain, compared with a 38 per cent share the year before.

Such figures confirm the tendency for many multinational advertisers – attracted by cost savings and the convergence of consumer taste – to treat Europe as a single market. But it would be unwise to get carried away. Pan-European advertising remains largely a television phenomenon: US companies predominate (11 of the top 50 are American, including Kellogg's at number one); and uncertainty and ambivalence remain, even among the supposedly committed. A fifth of the biggest spending brands in 1991 in the Euromarketing survey failed to make the top 100 a year later.

Of the factors driving companies towards greater use of Euro-brand advertising, an important one is cost. Bill Britt, Euromarketing's editor, says the recent rapid growth of pan-European marketing is partly inspired by the financial savings.

"It's much cheaper to shoot just one commercial and then use it across Europe. It's also cheaper for a company to assign one Euro-marketing manager and to have more junior product managers, rather than full marketing managers, at country levels."

John Hegarty, creative director of the London-based independent advertising agency BBH, which makes pan-European advertising for Levi Jeans, agrees. A one minute television commercial costs about £300,000. By shooting a single TV ad to span six European markets, Levi Jeans saved itself about £1.5m.

Hewlett-Packard, the computer company, also cites cost efficiencies as one benefit of its pan-European approach. Says Roger Wilson, its director of communications and public affairs: "We don't have advertising executives across Europe any more".

He adds: "In our business, information technology, where products sometimes have only six-month life cycles, we are absolutely convinced that marketing and advertising could not be done any other way.

"The development cycle of the product is now so short you can only afford to launch it once. The whole marketing process, including the advertising, is now pan-European".

Cars claimed the biggest share of pan-European advertising with 24 per cent of the total of the top 100 brands. Renault, Fiat, Peugeot-Talbot and Ford were all in the top 10.

Toiletries and cosmetics came next, with 14 per cent, food in third place with 12 per cent and confectionery and laundry products both taking 10 per cent.

David Newkirk, vice-president of management consultants Booz Allen & Hamilton, believes other, more fundamental factors are responsible besides cost cutting. "The young and the rich have very similar tastes the world over, and that's what's driving the convergences in advertising and media", he says.

Before he joined Booz Allen & Hamilton in 1991, Newkirk was with American Express, where he promoted its gold card services worldwide. "Gold card means prestige everywhere. But the way you signal prestige varies with culture. The US gold card advertising was all about achievement and it was, frankly, tacky in Europe. We had to change it. But the basic propositions involved in products – be it freshness in soap powder, or odour-free in toiletries, or young and trendy in soft drinks, or prestige in financial services – those underlying needs are very similar wherever you go."

Differentiation at local level is nevertheless important even for companies with aspirations to be noticed internationally, Newkirk explains.

"McDonalds, Coca-Cola, Pepsi, run global campaigns but they still execute them locally. Take Coca-Cola's new campaign featuring its return to an old bottle shape. In the UK, that campaign is running heavily on posters in bus-shelters, a medium that doesn't exist in the US. It's different again in France because poster sizes are different there. Such differences in media necessitate that a global advertising message is executed very differently in different countries.

"It's going to be a long time before the media and the way people use media converge, even if the products, the positionings, and the copy strategy all converge," he adds.

John Hegarty argues that pan-European advertising can work at a deep cultural level, "if you focus on the similarities rather than the differences between people".

"With Levis, people across Europe have a certain view of 'Americaness', and the advertising can tap into that commonly held view. Cars are the same; our experience of the car has developed in cohesion, transcending national borders. But the Italian experience of olive oil is very different to the British and it's harder – though not impossible – to do pan-European advertising for products which have very different national associations."

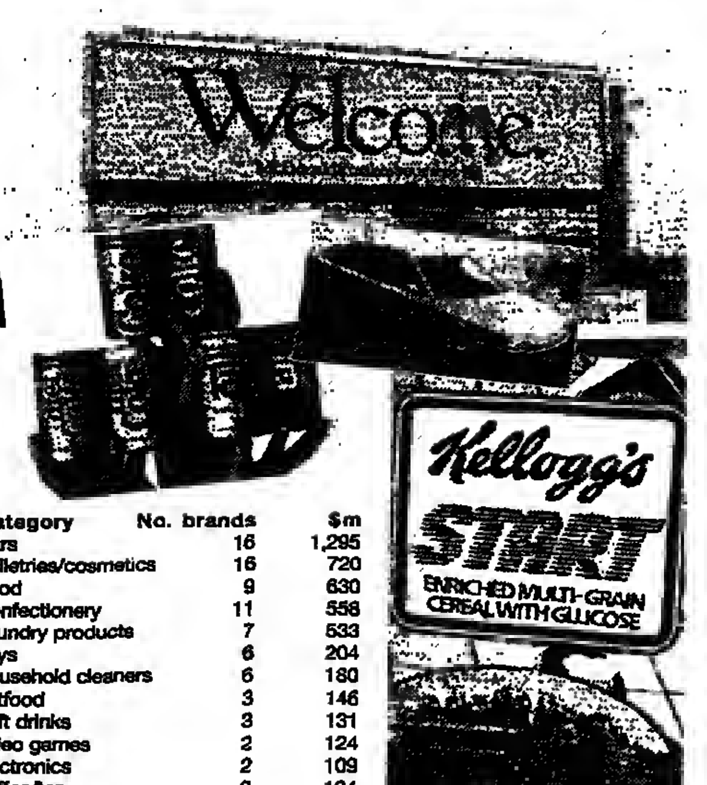
Miles Colebrook, president and chief executive officer of JWT Europe, supports the idea that the most successful pan-European campaigns are those which have got their central proposition clearly defined. How that is interpreted locally is of less importance.

"Nestlé Rowntree's chocolate bar Kit Kat is now sold throughout Europe with the same slogan ("Have a break, Have a Kit Kat") but whereas in Britain the TV ad features a children's puppet show, in Holland the voice-over is done by a Dutch humorist. Neither would work at all in the other country."

The further away from a TV screen, however, the more difficult many experts say it becomes to create and to deliver a pan-European message.

Promotion and purchase practices, product sampling, dealing with the trade and pricing are all local issues and are likely to remain so.

Biggest advertising groups in top 100 in 1992



Category	No. brands	$m
Cars	16	1,295
Toiletries/cosmetics	16	720
Food	9	630
Confectionery	11	558
Laundry products	7	533
Toys	6	204
Household cleaners	6	180
Petfood	3	146
Soft drinks	3	131
Video games	2	124
Electronics	2	109
Coffee/tea	2	104

Source: Euromarketing

Tim Dickson on an alternative to takeovers

An emerging taste for strategic alliances

In the absence of any new wave of cross-border takeovers, are joint ventures and other strategic alliances a better means of penetrating new markets? Many European businesses seem to think so.

The absolute number of such deals fell last year, which is not surprising in the depths of recession.

More significant perhaps is the position of joint ventures and strategic alliances relative to the mergers and acquisitions arena. Figures from IFR Securities Data and Amdata show that M&A deals comfortably outpaced alliances by more than six to one in 1990. But in the first four months of this year the ratio had fallen to less than three to one.

That picture is confirmed in a report just published by the Conference Board*, which indicates the "high degree" of interest in joint ventures and strategic alliances among respondents polled in a recent survey of top European managers. It is also endorsed by advisers such as Price Waterhouse, recently appointed to manage a UK government programme intended to help small and medium-sized UK companies to establish closer links with US businesses.

PW's John Peacock says: "Joint ventures and strategic alliances have become an increasingly popular way of developing new products and entering new markets, often at a somewhat lower capital cost than investing directly or by acquisition".

Strategic alliances – distinct from mergers in that both sides retain their separate identities – can take many different forms, and meet different objectives. Take the late 1991 joint venture between Coors of the US and Scottish & Newcastle, the UK regional brewer, specifically to market and to promote Coors' Extra Gold premium lager in the UK.

From S & N's point of view, the licencing and distribution agreement added a further brand to its portfolio of premium lager, allowing marketing and promotion costs to be shared.

For Coors, the attraction was immediate, low-cost access to a new geographical market via a proven distribution network.

Unilever has traditionally preferred to have full control of its businesses. In the last year, however, the Anglo-Dutch group has formed a joint venture with PepsiCo, the US soft drinks and snacks group, to sell canned iced tea and with France's BSN to develop and market products combining ice cream and yoghurt. An attraction for Unilever, which will have operational control, was the chance to respond quickly to demand from US consumers.

Both the Unilever deals, and the 50:50 joint venture between General Mills and Nestlé to use the combined potential of their brands to develop a ready to eat breakfast market, are offensive moves intended to create businesses from scratch and build on the complementary strengths of acknowledged industry leaders.

By contrast the decision by Pepsico and General Mills to merge their existing European snack food operations – excluding the UK – in a 60:40 joint venture is a defensive move by two relatively weak players explicitly limited to one region.

Elsewhere, the sale to Bell Canada of a minority shareholding in Cable & Wireless's Mercury telecoms subsidiary shows how different objectives can be met.

For C & W, the deal served to crystallise the value of Mercury into its share price and reduced its gearing. From Mercury's point of view, it opened a closer relationship with Bell's UK cable TV operators and access to marketing and technology skills and a retail distribution network. For Bell Canada, the deal not only provided a way into a new market, but offered competitive market experience for a company faced with the ending of its monopoly in telecom services.

The 50:50 joint venture between Wessex Water, one of the smaller UK privatised water companies, and Waste Management of the US, also reveals different agendas. Wessex was keen to diversify from its price-regulated core water business into the waste management field. The deal leaves it virtually bid-proof (having made its contribution via the issue of shares to its partner). Waste Management has access to a new geographical market.

The apparent enthusiasm for strategic alliances goes against the grain of executives trained to accept full responsibility for what they do. Many fail, despite the amount of management time devoted to them.

It is too early to judge the recent crop of ventures. But the Conference Board's report makes a useful contribution in this regard. Based on many more established cases and also on new information from the European survey, it seeks to set guidelines for successful alliance management. Among the recommendations, the author suggests that participants should:

- Conduct a cost/benefit analysis of favourable and unfavourable conditions.
- Where possible, start an alliance small and build it up on trust.
- Identify and address conflicts about activities critical to success, deadlines, or government regulations.
- Generate widespread internal political support.
- Place operating managers on the negotiating team.
- Send divisive topics to higher-level negotiation groups.
- Structure the alliance with its own board of directors to speed the approval process.
- Not require the alliance to prepare two sets of financial control reporting systems, one for each partner.
- Stay alert to early signs of termination: inflexibility in adapting operating procedures; combative negotiation style; conflict about management appointments; a reluctance to re-invest.
- In the termination process, determine what must be accomplished in order to allow the remaining partner to keep the former joint activity going.

**Strategic Alliances: Guidelines for Successful Management. Available from Avenue Louise 207, Box 5, B-1050, Brussels. Tel(32) 2 640 6240. Price for associates $20, non-associates $80.*

PEOPLE

Tyrrell finds home away from the Abbey

James Tyrrell, group finance director of Abbey National, is stepping down to take up the same position at London International Group, the condoms-to-photo-processing company with a market capitalisation only some 5 per cent the size of the Abbey. Ian Harley, appointed treasurer only last summer, succeeds him.

The building society-turned-bank has earned a reputation for well-planned management successions, and it is understood that last summer's reshuffle of key executives confirmed Tyrrell in his feeling that it was time to move on. Harley, then retail operations director, swapped jobs with Gareth Jones, who had been managing Abbey's profitable treasury operation. Outsiders concluded the two were being groomed for the top when Peter Birch, who turns 60 only in 1997, retires.

Tyrrell, 52, a chartered accountant who trained with Coopers & Lybrand, has had a varied career. After a spell as finance director of Associated British Cinemas, he worked with EMI Leisure Enterprises and EMI Records before becoming managing director of HMV shops in 1979. From there, he moved to Abbey National, initially as general manager, finance. He joined the board in 1989, and it was on his watch as finance director that the conversion to plc status was made.

Anything but a typical Abbey man, colleagues record that his office is renowned for its collection of rock memorabilia alongside toy soldiers. He earned the nickname "squirrel Tyrrell" for his cautious nature, whilst gaining a reputation for his intellect and command of detail.

Harley, a less extrovert figure, joined Abbey in 1977. His career pattern is what one insider describes as "a super example of horizontal progression". He has worked both in head office as group financial controller and in the regions as, first, finance director and, then, operations director on the retail side.

The current finance director at LIG, David Harhut, 55, announced a year ago his intention to take early retirement. Tony Butterworth, LIG chief executive, indicated Tyrrell would have been attracted by the multinational nature of LIG's operations. Colleagues assumed Tyrrell's move to LIG meant his sites were targeted on the chief executive's seat.

From BBC to dreaming spires

James Arnold-Baker, head of BBC Enterprises, is to be the next chief executive of Oxford University Press.

Arnold-Baker has been in charge of all commercial operations of the BBC – from books and magazines to the sale of programmes abroad – for the past seven years. Before that, he was a marketing executive at Fischer Price toys.

The BBC executive simply saw an advertisement for the Oxford job and applied.

"It's a very exciting opportunity," said Arnold-Baker, whose BBC contract does not expire until September.

"I have built a nice little business [at the BBC], but now it's time to move on," said Arnold-Baker, who is also a member of the BBC board of management.

He believes there are real similarities between the BBC and Oxford University Press. Both combine public service and commercialism.

Public posts

■ **Roy Whithear**, previously finance director of Greenwell Montagu, has been appointed the first secretary general of the council of the ASSOCIATION FOR CHILD PSYCHOLOGY AND PSYCHIATRY.

■ **Sandy Clark**, director of AMEC Offshore Developments, has been appointed chairman of the OFFSHORE CONTRACTORS' COUNCIL.

■ **Anne Mace**, chief probation officer of West Yorkshire, has been elected to the chair of the ASSOCIATION OF CHIEF OFFICERS OF PROBATION.

■ **George Gillon** has been appointed chairman of the City of London RICS branch.

■ **Mike Grindrod**, general manager of Co-op Travelcare, will become chairman of the ABTA National Training Board when his ABTA presidency ends in June. He replaces Norman Richardson who is to become chairman of the governors of New College, Durham.

■ **Michael Ferryman** has been elected president of the LONDON MARITIME ARBITRATORS ASSOCIATION; he succeeds Bruce Harris who has been elected chairman of the CHARTERED INSTITUTE OF ARBITRATORS.

■ **Tony Hales**, chief executive of Allied Lyons, (above) has been appointed vice-chairman of the CBI's NATIONAL MANUFACTURING COUNCIL.

■ **David Gordon**, chief executive of ITN, has been appointed a trustee of the TATE GALLERY.

■ **David Clarke**, technical director of Forte, and **Jill Morris**, Safeway's company microbiologist, have been appointed to the ADVISORY COMMITTEE AND STEERING GROUP ON THE MICROBIOLOGICAL SAFETY OF FOOD.

■ **Angus Clark**, chairman of Newmarket Foods, a Sainsbury's subsidiary, has been appointed president of the FREIGHT TRANSPORT ASSOCIATION.

■ **Philip Morley**, chief executive of Vacation Care International, has been appointed to the board of management of the TIMESHARE COUNCIL.

■ **Ann Robinson**, director of policy and planning at the Benefits Agency, is appointed chief executive designate of the SPASTICS SOCIETY.

■ **Sir Bryan Nicholson**, chairman of BUPA and president-elect of the CBI, has been appointed a deputy chairman of the FINANCIAL REPORTING COUNCIL.

■ **Jim McMichael-Phillips** has been elected president of the DAIRY TRADE FEDERATION.

■ **Marion Poole**, formerly secretary and registrar of the Chartered Institute of Patent Agents, has been appointed then first general secretary of The NATIONAL CONFERENCE OF FRIENDLY SOCIETIES.

■ **Tony Mallin**, vice-chairman of Hambros Bank, is appointed chairman of the FINANCE & LEASING ASSOCIATION.

■ **Kathleen Demitros**, md of Harley-Davidson UK, has become a director of the MOTOR CYCLE INDUSTRY ASSOCIATION.

■ **Richard Pugh**, technical director of Tesco, has been appointed a member of the executive committee of HORTICULTURE RESEARCH INTERNATIONAL.

■ **Duncan Lawton**, deputy chairman of BRITISH VITA, (above) has been appointed High Sheriff of the County of Greater MANCHESTER.

■ **Ron Amy**, group compensation and benefits director at Grand Met, has been elected chairman of the NATIONAL ASSOCIATION OF PENSION FUNDS.

■ **Peter Long**, chief executive of Bowater's industrial packaging division, has been appointed chairman of the BRITISH FIBREBOARD PACKAGING ASSOCIATION.

Bad behaviour made good

Cinema/Nigel Andrews

The magnificent Isabelle Huppert as Emma in Chabrol's version of 'Madame Bovary'

BAD BEHAVIOUR (15) Les Blair
MADAME BOVARY (PG) Claude Chabrol
JACK THE BEAR (12) Marshall Herskowitz
BEING AT HOME WITH CLAUDE (18) Jean Baudin
COP AND A HALF (PG) Henry Winkler
VACAS Julio Medem

Noel Coward once wrote an acerbic lyric about people's behaviour away from Belgravia. In *Bad Behaviour* the place is Hampstead, Belgravia's gipsy sister, and people's behaviour there, as depicted in Les Blair's brilliant improvised comedy, is colourfully and wittily appalling.

'Twas often thus, of course, in Hampstead: a place known for its searing struggle between yuppification and Bohemianisation. Take town planner Gerry and his wife Ellie (Stephen Rea, Sinead Cusack): a gentle, cultured, unkempt couple who fall out with casual acquaintance Howard Spink (Philip Jackson) when he, Howard, proves a beardless spiv with a cordless telephone. H. goes around offering "free advice" on building firms and then charging a three-figure consultancy fee plus VAT. Even the builders he uses hate him. They are the Nunn Brothers, identical cockney twins played by a never-in-the-same-shot Phil Daniels.

Other walking wounded of NW3 include neurotic single mum Jess (Clare Higgins) and Jess's permanently shellshocked daughter Rosie (Emily Hill). Plus a sea of children, casual friends, a dog or three. But the wonderful thing about this film, which resembles a Mike Leigh comedy notched up half a social class by Alan Ayckbourn, is that the canvas never seems overcrowded.

Gerry and Ellie are the still centre of paralysed social mobility: a liberated couple who dream of movement but cannot decide on up, down or sideways. In the meantime their bathroom is a prey to the Nunn Brothers' drills and chisels; their sitting-room fills up with the mad, bad and dangerous, a surgery for the emotionally maimed; and outside, the frightful Howard roams the land using his Cellnet as an instrument of torture.

Escape is urgent for everyone, even Jess who wants to clear off for a weekend of spiritual uplift. ("It's a Buddhist monastery in Hemel Hempstead and you have to book"). But this being North-west London, escape only ever takes place in the mind: along with several other healthy human activities – sex, murder, revenge – that should get out more but in Hampstead keep vanishing up cerebral cul-de-sacs.

Director Les Blair, who began as an editor-producer for Mike Leigh (*Bleak Moments*) and then shaped improvised tele-gems like *Newshounds* and *Honest Decent And True*, finds a perfect comic rhythm for this social-satirical foxtrot. Slow, slow, quick, quick, slow, with sudden shifts to manic overdrive (Howard) or Celtic narcolepsy (Gerry).

Though the whole cast is a joy, we must pick out the mop-headed charm and beatific distractions of Stephen Rea. He looks like an overgrown sheepdog: he acts as if he has just got out of bed and wants to go back; and even his hatred of the Irish-baiting Howard has a frazzled illogic. "Just knock off the references to racial origin, you big limey bastard." Bad behaviour as inventive as this can give good behaviour a bad name.

★

Gustave Flaubert wrote a famous novel about bad behaviour and named it after his culprit-beroine. Clauda Chabrol's film of *Madame Bovary* sallies forth once more to tha blighted marriage bed, the dreams of romance, the horrors of 19th century French provincial life: all those things that made Emma take refuge first in adultery, later in arsenic.

The magnificent Isabelle Huppert plays her as a chalk-faced sphinx with saucer-wide mouth and eyes prone to sudden shock or crimson-rimmed tears. This woman has something worse than *ennui*: spiritual asthma. You *believe* she is suffocating in the loving, boring arms of Charles (Jean-François Balmer); that infidelity is an adventure as heady and unreal as those fictional passions she has read; and that shopping her way to bankruptcy is for Emma a way to turn invisible emotion into hard, clinking barter.

Ten out of ten for Miss H. But around her the film is Bovaryesque in the wrong way. Instead of the crisp-edged satiric pessimism we expect from Chabrol – who used to light the edges of his scripts in films like *Le Boucher* and *La Femme Infidèle* and watch the smoke get up our eyes and noses – here is a TV-style costumer as stuffy as it is static. The camera stands on one side of the room; the characters on the other and the Great Dialogue (taken verbatim from the book) flaps over as regularly, ineluctably as an airport departure board.

Sometimes the blood quickens – how could it not in a 2½-hour film? The tragedy of 'Justin's foot has the right curdled horror; and later Chabrol catches the breathless desperation of a life lived between small town and large town, between small lie and larger self-deception. But mostly this *Madame Bovary* is game, set and match to Mlle Huppert, her victory made somewhat hollow by the fact that there is no one the other side of the net.

★

Danny DeVito is everyone's favourite Dad in *Jack The Bear*. We know this because the saccharine piano score tells us so. It goes "Plinky plink plink" while the images of bygone American suburbia (Oakland, California, early 1970s) sigh with golden-lensed recall. De Vito, who hosts a late-night TV horror show, is the life and soul of the neighbourhood and at home acts the perfect emcee whenever his young son (Robert J. Steinmiller Jr) – whose voice narrates the film – brings home a blushing girlfriend.

"He was an artist" coos Sonny's voice-over on one such night; "what he was creating was the perfect evening." What director Marshall (*thirtysomething*) Hershkowitz and writer Stephen Zaillian create, adapting a novel by Dan McCall, is 98 minutes of consummate schmaltz. There has always been an attraction, like opposite hues on the colour-wheel, between picket-fence tweeness and Gothic menace. (See David Lynch's *Blue Velvet*). But here the theme of innocence under threat, from the playtime gore of DeVito's TV show to the flesh-and-blood fears provoked by neo-Nazi neighbour Gary Sinise, becomes an ever more contrived contest between boyhood bliss and bargain-basement bugaboos.

Being At Home With Claude begins as a movie but soon stiffens into the stage play, by Rene-Daniel Dubois, on which it is based. We open with a nerve-shredding montage of sounds and images: groans of seeming human pain heard over black-and-white shots of a cityscape; blurry, scarce-decipherable close-ups of two men making love; a wineglass and knife shuddering off a kitchen table; a splash of red blood across a fridge door.

Nasty but compelling. Thereafter, though, director Jean Baudin switches off the arc-lamps and switches on the stage footlights. A theatric two-hander unfolds as the supposed murderer (Roy Dupuis) is quizzed, endlessly, by the dogged detective (Jean Godin) in a single-room setting occasionally ventilated by flashbacks. Acted as if to the back of the gallery, the movie should empty the front stalls in no time, rolling back the audience as the minutes drag on.

For the rest, it is a clear choice between *Cop And A Half* starring Burt Reynolds and *Vacas* starring a cow. The first is a Hollywood law-and-order comedy with an ageing star wearing a wig, a police uniform and a look that says "This was the wrong movie to choose for a comeback." TV ex-Fonz Henry Winkler directs. *Vacas* is a Spanish allegorical fable about war, in which the eponymous cow stands for – for – well, for about an hour and a half.

Obscure, but please be patient. Debut director Julio Medem escorts us through over 60 years of Spanish history, delineating a Basque family whose members splinter off into history much like the bits and pieces that fly up from the early log-splitting contest. Or, indeed, like the movie's own style: a dancing, fizzing, restless Magic Realism in which only the title animal – representing Spain? God? Destiny? – offers a sure and sacral immobility, a large-eyed, large-viewed wisdom.

Music in London

South Bank looks North

As if in response to the Barbican's lavish "Tender is the North" festival of last autumn the South Bank has come up with a modest Scandinavian celebration of its own. Five concerts this week under the auspices of the Philharmonia focus upon new music, and upon the work of Magnus Lindberg in particular.

The presiding spirit is the Philharmonia's principal guest conductor Esa-Pekka Salonen, and the first two concerts on Monday and Tuesday also involved the Ensemble InterContemporain; in the final programme next Saturday, which will include the British premiere of Lindberg's thrilling and ambitious *Kraft* from 1984, Toimii, the experimental group founded by Lindberg and Salonen, makes its London debut.

Born in 1958, Lindberg is now well established in the vanguard of European music. The BBC has brought a number of his major scores to London – *Kinetics* was heard at the 1991 Proms, and a commission, *Corrente II*, was included in the Barbican festival last November; the London Sinfonietta premiered *Marea* in 1990 and introduced the lucid and carefully wrought *Joy* a year later.

Such pieces have demonstrated Lindberg's harmonic assurance and his knack for vivid invention, and the largest piece in the EIC's programme on Monday, *UR* from 1986, is similarly charged with striking gestures and confidently controlled long-range thinking. It was performed, though, without the computer-controlled synthesiser material which the score suggests is an integral part of the concept; the composer seems to have has resigned himself to this acoustic version, though the work itself seems impoverished as a consequence. But the potency of the exuberant *Ablauf* for clarinet and percussion from 1988 and the concentrated solo-cello *Stroke* four years older both seemed unimpaired in the forthright EIC performances.

The newest piece on display, *Corrente*, completed last year and included in Tuesday's programme, suggests a new direction in Lindberg's music. In turning away from the increasingly architectural harmonic structures of a work like *Joy* towards a more fluidly dynamic process, Lindberg sets up unbroken skeins of figuration which define and then revise their own harmonic spaces. Ligeti seems the distant model, but though all the threads are pulled convincingly together in the final pages there seemed something disappointingly conventional about the working method, as though in looking for a fresh impulse Lindberg has sacrificed something of his personality.

Both concerts also contained works by Lindberg's contemporaries. Salonen's programme included his own *Floof*, a jokey and surreal piece of text-setting vividly sung by Sarah Leonard, and more substantially the UK premiere of Jouni Kaipainen's two-movement clarinet concerto *Carpe Diem!*. It is an unremarkable piece, decking out a thoroughly traditional framework with modish clarinet effects, but the performance was memorable for the solo playing of Kari Kriikku, extraordinary in its seamless fluency, range of colour and virtuoso élan. In some hands even the dreariest material can be made compelling.

Andrew Clements

Purcell Room and Queen Elizabeth Hall. Further concerts tonight and Saturday

A zestful 'Belshazzar'

When the oratorio *Belshazzar* had its first performance in 1745, it was performed at the King's Theatre in the Haymarket, which Handel had booked for the winter season. A composer with a talent for enterprise was evidently an acceptable figure at the time – perhaps Lloyd Webber has more illustrious predecessors than one imagined.

For this performance in the Covent Garden Festival we were back on hallowed ground, in St. Paul's Church. The performance did not go the full distance in "authentic" performance practice, but it captured much of the zest, the strong dramatic atmosphere that is at the root of so many Handel oratorios, despite a penny whistle serenading us from outside in the piazza.

The conductor, Peter Ash, and the Covent Garden Festival Orchestra performed the score with few cuts (none at all in the choruses, for which the New Company Choir proved more than adequate). The main four soloists lost an aria each and couple of da capo repeats were snipped out. I doubt that many people complained when they were sitting on hard church pews. Audiences in Handel's day must have had "authentic" bottoms which were more resilient than ours.

In any case, in its central act where Belshazzar indulges in his revels, this is a vividly-dramatised work. Handel sets the scene of the writing on the wall with great skill, varying the pace so that he can build a scene of mounting cumulative power – the gift of a practised opera composer. The central figure of Belshazzar is keenly drawn, a young man, reckless, assertive, in Jamie MacDougall's forthright portrayal.

The acoustics in this church are good for solo singers, probably rather flattering. Carol Smith offered a mix of period purity and deeper colours in the soprano music of Nitocris and Jonathan Kenny made a plangent counter-tenor Daniel; Michael Druitt was the bass Gobrias. All the solo numbers, however, were decisively trumped when Jean Rigby marched on as the general Cyrus to proclaim her victory with a display of proud and energetic coloratura singing.

With its small garden in which the audience can relax during the interval, St Paul's Church makes a distinguished venue and the least I can do is get its architect right: he was of course Inigo Jones, not Wren, as I stated on Tuesday.

Richard Fairman

Covent Garden Festival sponsored by the BOC Group

Fassbaender at full steam

Anyone who has heard – no, *experienced* – Brigitte Fassbaender in full, black cry knows what to expect when the Kraken wakes. Her mezzo, which grows deeper with the years, can carry an extraordinary charge of pain: exposed but stoical, disabused, disdaining any kind of appeal for sympathy except naked candour. In the Jon Vickers stakes for heart-seizing vocal *Affekt*, she is a top contender.

That is a crucial factor in her recently developed *Winterreise*; but we might have heard it coming as far back as her memorable *Rosenkavalier* Octavian, with a young aristo's manly shyness and nervous dignity undercut, or underpinned, by those forcefully poignant tones – or in her cool *Capriccio* Clairon, darkly suggestive beyond the meagre role Strauss composed. There is also tough, unwinking intelligence, and abrasive bumour (she is e Berliner by birth). In fact Fassbaender counts by now as a *monstre sacré*, and the Wigmore Hall audience on Monday gave her a vociferous welcome.

What she sang, however, was a wide-ranging selection from Hugo Wolf's Mörike *Lieder*, to which her formidable powers are not ideally matched. She delivered almost everything in the first half *forte* or *fortissimo* as if she had come straight from Carnegie Hall and forgotten to adjust the volume. In that, her excellent pianist Jean-Yves Thibaudet vied with her: it was hard to tell who was challenging whom for domination. As a result "Auf einer Wanderung", which is an iridescent vision, sounded as heartily down-to-earth as "Fussreise".

There was more light-and-shade in the second half – though she belted out the rapt "Gesang Weylas" hymn, *not* a good idea. "Der Feuerreiter" was of course stridently dramatic bnt there were lovely measured nuances in "Denk' es, O Seele", one of Mörike's death-haunted prayers, and in the radiant "Im Frühling". In the latter it was only to be expected that Fassbaender's closing sigh (*Alte unnennbare Tage!* – "Old, unutterable days!") should hint at memories of a really unspeakable kind, just as in "Nimmersatte Liebe" the light erotic play of *Je weher, desto besser* – "the more it hurts, the better!" – would sound like raw masochism.

What hardly ever felt right was Thibaudet's pulse. Too often his address seemed unfeelingly swift and bright, bustling the songs along before they could cast any long shadows. Still, I look forward anxiously to bearing the new Decca CD of this programme – for in the recording studio Fassbaender and her partner must surely have scaled down their dynamics, and perhaps even relaxed the pace.

David Murray

Theatre/Malcolm Rutherford

The Changeling

Here is one of the few Jacobean plays outside Shakespeare and Jonson that has been repeatedly revived in the last few decades. It deserves to be so. Written around 1622, *The Changeling* by Thomas Middleton and William Rowley may have its deficiencies – a cumbersome subplot, for example – but it is also compellingly and unusually dramatic. Few productions could be better than that by Michael Attenborough, which has arrived at the RSC's Pit Theatre in the Barbican from Stratford.

At the heart of it is an outstanding performance by Malcolm Storry as De Flores, the man with a deformed face who is ready to kill in order to win his equally evil love, Beatrice-Joanna. Before we give the praise to Storry alone, however, we should recognise that there has been some fundamental rethinking. This *Changeling* is presented as a warped love story, and becomes in the end rather moving.

The technique is to make De Flores much less ugly than he usually his. True, he has a scarred, burned face, though much less so on one side than the other. But he also has charm, wit and intelligence. Played by Storry, be is physically a buge figure, but not without grace in his movements. He dominates the stage whenever he is there, and it is no surprise that Cheryl Campbell's Beatrice begins to fall for him. Indeed the central thread of the production is that you see this coming early on. Ms Campbell would surely not demur if we say that this time it is De Flores rather than Beatrice who is the star attraction.

Where the pair of them differ is that De Flores knows what he wants from the start, and that is Beatrice at any price. She, on the other hand, thinks that sha can use him as the servant he is. When he has killed her betrothed at her command, she remarks: "Why, 'tis impossible thon canst be so wicksd . . . as to make his death the murderer of my bonour!" Bnt she learns fast. There cannot be one law for the nobility and another for the lower orders. They become partners in evil: she is no less infatuated than he is. As they die together, they are in a way as striking as Antony and Cleopatra or Romeo and Juliet. Only their world is different.

Nothing in the rest of the play quite stands up to this passionate affair, though the entire production is well done and packs resources into the Pit's limited space. The set, designed by Julian McGowan, is suitably sinister, lizards on the bronze walls and a bronze of Christ on the cross. Do not imagine that the dream sequence is a modern invention; it is there as a dumb show in the original text. For all its macabre background, this could be a modsrn psychological drama. You should see it before a great deal else in London.

In Repertory, The Pit, (071) 638 8891

INTERNATIONAL ARTS GUIDE

■ BARCELONA

Gran Teatre del Liceu Tonight, Sat, Mon: Jordi Savall conducts Gilbert Deflo's staging of Monteverdi's Orfeo, with cast including Mark Tucker, Jennifer Larmore and Alison Browner (412 3532)

Palau de la Musica Tonight: Maria Joao Pires plays piano sonatas by Beethoven and Schubert. June 9: Daniel Barenboim conducts Chicago Symphony Orchestra (268 1000)
• Booking through Caixa Catalunya (310 1212)

■ BOLOGNA

Teatro Communale Tues: Michel Tabachnik conducts first night of Stravinsky double bill, pairing Roberto de Simone's Naples production of The Soldier'e Tale with Les Noces, choreographed by Angelin Preljocaj. Six further performances till June 8 (529999)

■ BERGAMO

Festival Pianistico Internazionale di Brescia e Bergamo: Agostino Orizio directs an orchestral concert tomorrow at Brescia's Teatro Grande and on Sat at Bergamo's Teatro Donizetti. Alexander Lonquich gives Schubert recitals at Brescia on Mon and Bergamo on Tues. The festival ends on June 8 and 9 with piano recitals by Krystian Zimerman (Bergamo: tickets 249631/ information 240140. Brescia: tickets 59448/information 293022)

■ FLORENCE

Teatro Communale Sat: Zubin Mehta conducts first night of Nuria Espert's London production of Carmen, with cast led by Denyce Graves, Luis Lima and Justino Diaz. Repeated June 1, 3, 8, 9, 11 (277 9236)

■ GENOA

Teatro Carlo Felice Tomorrow evening, Sat and Sun afternoon, next Tues and Wed: Mascagni's Cavalleria Rusticana and Poulenc's La voix humaine, with alternating casts including Giovanna Casolla as Santuzza, Simone Alaimo as Alfio and Renata Scotto in the Poulenc (589329)

■ LONDON

THEATRE

● The Taming of the Shrew: New Shakespeare Company's summer season in the garden setting of Regent's Park opens tomorrow with previews of a new production by Toby Robertson, Press night on Tues. A second Shakespeare play, Romeo and Juliet, follows on June 16, and the Rodgers and Hart musical A Connecticut Yankee opens on July 27 (Open Air 071-486 2431)

● Antony and Cleopatra: Richard Johnson and Clare Higgins head the cast in Shakespeare's great historical love story, in an RSC production directed by John Caird. Just opened (Barbican 071-638 8891)

● The Last Yankee: Arthur Miller's subtle and touching four-parter about two American couples coping with disappointment and depression (Duke of York's 071-836 5122)

● Crazy for You: brilliantly staged Gershwin musical comedy (Prince Edward 071-734 8951)

● City of Angels: Larry Gelbart's top quality musical set in Los Angeles and the world of the private eye movie (Prince of Wales 071-839 5972)

● The Showman (Der Theatermacher): Alan Bates stars in British premiere of hilarious black comedy by Austrian playwright Thomas Bernhard. Till June 26 (Almeida 071-359 4404)

● Arcadia: Tom Stoppard's new play directed by Trevor Nunn, with a cast including Felicity Kendall. The National Theatre's repertory also includes Arthur Wing Pinero's late 19th century comedy Trelawny of the Wells and Macbeth with Alan Howard (National 071-928 2252)

OPERA/DANCE

Covent Garden Royal Ballet repertory consists of Swan Lake, Don Quixote and a new triple bill opening next Fri. Royal Opera has La bohema tomorrow, next Mon and Thurs, with Deborah Riedel, Karita Mattila and Jerry Hadley (071-240 1066)

Coliseum ENO repertory consists of Il barbiere di Siviglia with Della Jones (final performance tonight), David Alden'e acclaimed new production of Ariodante conducted by Nicholas McGegan with Ann Murray and Amanda Roocroft, and a revival of the Pountney production of Macbeth with Malcolm Donnelly and Kristine Ciesinski (071-836 3161)

Queen Elizabeth Hall Sat, next Tues, Fri, Sun: Mark Wigglesworth conducts David Freeman's Opera Factory production of Le nozze di Figaro (071-928 8800)

CONCERTS

South Bank Centre Tonight: Esa-Pekka Salonen conducts Philharmonia Orchestra in music by Lindberg, Chopin and Sibelius, with piano soloist Artur Pizarro. Tonight (QEH): Kenneth Sillito directs ASMF in Vivaldi and Bach. Tonight (Purcell Room): Joanna MacGregor piano recital. Tomorrow: Matthias Bamert conducts LPO in Fauré, Frank Martin, Elgar and Debussy. Sat: Salonen conducts Sibelius, Lindberg and Beethoven, with piano soloist Olli Mustonen. Sun: Riccardo Muti conducts Vienna Philharmonic Orchestra in Fauré, Ravel and Beethoven. Sun (QEH): Tasmin Little plays Britten's Violin Concerto. Tues: Murray Perahia piano recital. Wed: Frankl, Pauk, Kirshbaum trio plays Tchaikovsky and Shostakovich (071-928 8800)

Barbican Tomorrow: London Oriana Choir in music by Bernstein, Gershwin and Orff. Sat: songs and music from Stephen Sondheim's Broadway shows. Tues: Christoph Eschenbach is conductor and piano soloist with ECO (071-638 8891)

■ MADRID

Teatro Lirico La Zarzuela Tonight, Sat, next Tues and Fri: Lamberto Gardelli conducts Elijah Moshinsky's production of La forza del destino, with Carol Vaness and Giuseppe Giacomini (429 8225)

■ MILAN

Teatro alla Scala Tonight: James Conlon conducts final performance of Luca Ronconi's new production of Weber'e Oberon. Sat evening, Sun afternoon: Giordano'e Fedora. Mon: Chorus of La Scala. Tonight at Teatro Lirico: double bill pairing Nino Rota'e ballet La Strada with modern Italian choreographies (7200 3744)

■ PRAGUE

The final week of this year's Prague Spring Festival includes a concert by Leos Janacek Chamber Orchestra tonight in Church of Our Lady of Tyn, a Czech Philharmonic Orchestra concert tomorrow in Smetana Hall conducted by Gerd Albrecht, a performance of Oskar Nedbal'e ballet From Fairy Tale to Fairy Tale on Sat afternoon in National Theatre and a Prague Symphony Orchestra concert on Sat evening in which Maria Tipo plays Beethoven's First Piano Concerto. Slovak Chamber Orchestra gives a concert of Purcell, Handel and Tchaikovsky on Mon at Dvorak Hall, and the festival ends on Tues with Beethoven's Ninth Symphony conducted by Jiri Kout.

● For pre-booking and information about these and other events, contact Bohemia ticket agency, Na Prikope 18, tel 228738 and theatre box offices.

■ ROME

Teatro dell'Opera Tomorrow, Sun, Tues (also June 5, 8, 10, 12, 15): La traviata with Giusi Devinu, Luca Canonici and Renato Bruson. Mon: Ghena Dimitrova song recital. Programme subject to cancellation or change at short notice (481 7003)

■ STRATFORD

Two new productions join the repertory tonight. The Royal Shakespeare Theatre starts previewing The Merchant of Venice, directed by David Thacker, with David Calder as Shylock (Press night next Thurs). For the next two months, this production will alternate with King Lear starring Robert Stephens (next performances June 7 and 8). Tonight also sees the first preview in the Swan Theatre of Goldoni's classic farce The Venetian Twins, directed by Michael Bogdanov (Press night next Fri). Previews of Ibsen's Ghosts, directed by Katie Mitchell, start on Mon in The Other Place (0789 295623)

■ VENICE

Teatro La Fenice Tomorrow: Vladimir Delman conducts first night of Andrei Serban'e production of Eugene Onegin, with Ana Pusar, Sergei Leiferkus and Neil Shicoff. Repeated on Sun and June 1, 4, 8, 8 (521 0161)

ARTS GUIDE

Monday: Berlin, New York and Paris.
Tuesday: Austria, Belgium, Netherlands, Switzerland, Chicago, Washington.
Wednesday: France, Germany, Scandinavia.
Thursday: Italy, Spain, Athens, London, Prague.
Friday: Exhibitions Guide.

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Sunday Super Channel: West of Moscow 1830
Super Channel: Financial Times Reports 1900
Sky News: West of Moscow 0230; 0530
Sky News: Financial Times Reports 1330; 2030

The 'sick and tired' trade policy

BOOK REVIEW

US autoworkers will tell you that there is a single, overriding reason for the industry's plight – unfair foreigners who exploit government subsidies and dump their models to gain market share in the US.

President Bill Clinton's economic team appears tempted by the same world view. Mr Mickey Kantor has frequently expressed the view, during his first few months as US trade representative, that foreigners must change their unfair trading practices – whether it is EC subsidies for Airbus or the labyrinth of non-tariff barriers which block US exporters from the Japanese market.

The US is sick and tired of opening its market and playing by the rules while foreigners twist the rules to keep US companies out. Moreover, abuse of the multilateral trade rules laid down by the General Agreement on Tariffs and Trade more than 40 years ago has brought the organisation into disrepute and eroded US faith in multilateralism.

This rationalisation of the ills besetting US trade – and of "realistic" solutions – takes a severe and carefully argued beating in a book to be published next month by Patrick Low, an economist in the World Bank's trade policy unit in Washington. "The greatest challenge of all in the trade sphere is not how to deal with the misbehaviour of foreigners, nor how to revamp the Gatt. It is how to confront the politics of responsibility avoidance at home, and to design and implement policy in the national interest," Mr Low argues.

Underpinning his case with an analysis of 70 years of US trade policy, Mr Low flags a growing danger of the US administration falling victim to the same forces that led in 1930 to the ruinously protectionist Smoot-Hawley Act.

"The dangers of pork barrel politics and unrestrained protectionism, from which Congress insulated itself [after Smoot-Hawley], have been allowed to creep back into the system," he argues. Section 301 of the 1974 Trade Act, which gives Congress the power to punish unfair trading practices, allowed the US to pursue gains for exporters without having to provide offsetting market-opening reforms likely to anger protected domestic industries.

TRADING FREE: THE GATT AND US TRADE POLICY
By Patrick Low
The Twentieth Century Fund Press $24.95, 297 pages

The Trade Act marked the end of a 30-year period during which gains for exporters could only be negotiated multilaterally at the expense of protection for domestic manufacturers. Section 301 also gave legal standing to the concepts of "unreasonable", "unjustifiable" and "discriminatory" trade practices which underpin the "responsibility avoidance" practised so widely today.

According to Low, "responsibility avoidance" involves two tendencies: blaming problems in trade performance on "unfair" practices by foreigners; and disguising the US administration's role in setting up protectionist, market-sharing agreements. This has been done principally through voluntary export restraint deals, 236 of which were implemented in the 1980s.

Low argues that legal and procedural restraints on protectionist action have progressively been eroded since the 1974 act, leaving only the self-discipline of policy-makers as a safeguard for free trade.

Even this self-discipline is being eroded as Congress has chipped away at the powers devolved to the executive in trade policy, seeking to promote sectoral interests at the expense of national ones. Congress has withdrawn delegated authority, introduced more protectionist statutes, and even imposed instruments, such as section 301, which are inconsistent with the Gatt. It is adamant that domestic laws should override obligations under international trade laws if the two should ever clash.

"The US has been arming itself legislatively over the years in a way likely to make policy more protectionist and more confrontational internationally," he writes. This has created, he says, "a situation in which trade restrictions can take effect with no one in particular seeming to be responsible for them".

The result, he argues, has been to "divert policy debate away from domestic failings and competitive difficulties, and focus it instead on the trade policy behaviour of foreign governments and firms".

Low believes the solution does not lie in rejecting multilateralism, despite contrary claims of a growing body of economists in the US who argue that there is no option but to pursue managed trade arrangements. He insists that multilateralism is not out of date: "It was never properly tried in key respects. The system did not break down; it had never been applied."

The Gatt was "never complete", he argues. Key sectors such as agriculture and textiles were excluded from the outset. Laws that were inconsistent with the Gatt and which pre-dated the agreement were allowed to remain. Some policy areas, such as subsidies, were never included. The agreement's failings are not due to the fact that multilateralism has been tried, and found wanting, but that a "conspiracy of non-compliance" from the earliest days of the Gatt left it fatally flawed.

Low also warns against learning false lessons from the short-term "success" of managed trade deals such as the US-Japan semiconductor accord. He describes them as a "source of trade instability and political tension".

Only a third of 301 actions from 1975 to 1990 had the desired result, he says. Many triggered retaliation, and carried a high cost in terms of trade friction. They are thus unlikely to achieve any more than short-term gains, with foreigners "reluctant to co-operate, resenting the unilateral, intrusive and accusatory flavour of designations".

If the Clinton administration is planning to pursue managed trade options, it should first recognise the trends revealed by Low, and then address the potent case he makes in favour of "trading free".

David Dodwell

ECONOMIC VIEWPOINT

What the Budget could look like

By Samuel Brittan

Michael Portillo's celebrated scrutiny of UK public spending is not strictly what the Americans would call a zero-based review. In other words, it does not ask if there would be a National Health Service or state education if we were starting in a new country with a clean sheet. But within roughly the framework of existing institutions, it is meant to ask fairly fundamental questions about coverage, methods and means of payment.

Less clear is the period of time meant to be covered. The main impact of any radical decisions would be felt after 1995-96, the period covered by present medium-term plans. As for the coming two financial years themselves, the official attitude seems to be that any savings would be welcome, but no one is counting on too much. In fact some unpopular moves may be required to enable the government to stay within the ceilings for the present three-year period which have supposedly been agreed by the cabinet.

Meanwhile a lot of work is being done on how best to measure the government's deficit. One of the stock subjects of business indignation relates to the absence of a proper public sector capital account. The famous Public Sector Borrowing Requirement (PSBR) resembles a confusingly combined profit and loss and capital account. This seems to many trained in the private sector a recipe for confusion.

The chancellor in fact promised in his Mansion House speech last October that the first unified Budget to be presented towards the end of this year "will be drawn up in a way that makes a proper distinction between current and capital transactions". He added that this would underpin "the government's commitment to infrastructure investment in the longer run". It will also make the Budget deficit look smaller.

There are undoubted benefits in presenting the public sector accounts in as similar a way to private sector ones as possible and also in having the same kinds of accounts for different parts of public sector. Very often however this reform is put forward as a panacea by people who do not understand the fundamental differences between government and business. Sometimes the motive seems to be to find a way of reconciling calls for economies in government spending in general with more spending in areas in which the critic happens to be interested.

Public sector balance: towards a new presentation

1993-94 estimates (£bn)	
Current expenditure	262.4
Current receipts	232.0
Current deficit	30.4
Capital spending	24.8
Financial deficit	55.2
Surplus on financial transaction*	5.1
Public sector borrowing requirement	50.1

* Mainly privatisation proceeds

Draft public sector capital budget

1993-94 estimates (£bn)	
Gross domestic fixed capital formation**	18.3
Increase in stocks	0.2
Capital grants to private sector	5.3
Share of expenditure reserve	1.0
Total capital spending	24.8

** Net of £0.2bn of capital transfer

The best way to see both the value and the limitations of a separate public sector capital account is to try to do so oneself on the back of an envelope. Such an effort can never hope to anticipate exactly the distinctions that Treasury officials will come up with next November, when moreover fresh estimates of revenue and expenditure will be available. But it should reveal the main contours.

People do not understand the differences between government and business

The tables in this article are a simple rearrangement of the last table (7.9) in the "Red Book" accompanying the 1993 Budget. In the Red Book itself the items are just classified as receipts or expenditure. Here the spending items normally regarded as capital by national income statisticians have been segregated from the others. (The expenditure "reserve" has also been divided between capital and current.) There is, however, a reluctance in the Treasury to apply the same treatment to £7bn of so-called capital receipts. This is a category covering items such as capital gains tax which is indexed and is not really levied on capital.

If we apply the suggested procedures to the estimates already given at the time of the March Budget, the result is to divide up the envisaged £50bn PSBR into a current deficit of about £30bn, a capital spending total of nearly £25bn and an offsetting inflow on financial transactions of some £5bn. (The latter are mainly privatisation receipts.)

The Treasury has in some recent publications shown a higher figure – of about £30bn – for public sector asset creation. This has been reached not only by ignoring the revenue side, but also by adding in investment by the nationalised industries and other public corporations. This is cheating. For, in a reform introduced by a Labour government in the 1970s, nationalised industry was excluded from the public spending total, so long as it was self-financed and not a charge on the Treasury.

At between 5½ and 6 per cent of GDP, the UK public sector current deficit shown in the table would be substantially lower than the 8 cent of GDP represented by the PSBR; and it is more plausible to believe that most of the lower figure is due to recession.

The instinct of the traditional Treasury official is to say that the whole PSBR has to be financed irrespective of how one chooses to divide it up. Indeed the chancellor next November may well try to have it both ways – to emphasise the lower current deficit to the financial markets while telling spending departments that the whole PSBR has still to be financed.

Indeed there are ways in which official estimates of public capital expenditure overestimate the amount of spending for longer-term productive purposes. How many of those who clamour for more capital and less current spending realise that nearly £6bn of military spending counts as capital? On the other hand the payments of salaries to science teachers counts as current expenditure.

There is an almost unlimited number of respectable ways of defining the Budget deficit

The current-capital distinction is not nearly as illuminating here as it is in the private sector. The basic point is that government lacks the simple business test of intended future cash return to decide what really is its capital spending. So the division between current and capital is much more a conventional demarcation between payments for resources which are used up in a single year and those which leave buildings, machines or stocks of equipment behind.

There is indeed an almost unlimited number of respectable ways of defining the Budget deficit. But to pursue them all is not consistent with continued sanity. Here, however, are a few hints.

You can reduce the deficit further by asking for it to be estimated on an inflation-adjusted basis. Even at current relatively low rates of inflation, a large proportion of government interest payments can be regarded as compensation to debt holders for the falling value of money. Moreover, the government has never seen fit to publish a cyclically-adjusted deficit which would eliminate that part which is just the reflection of recession.

If, on the other hand, you think the tentative separation of capital from current spending in the tables lets the government off the hook too lightly, try insisting on measuring capital spending net of depreciation. If you do that, you will be back not far from the original PSBR figure. If you want to make deficits look larger still, add on something for the unfunded social security liabilities in the next century as the population ages.

In the most highbrow circles of all the key concept is the primary deficit before debt servicing. The point is that a sufficient primary surplus is a precondition for reducing the level of national debt or its ratio to GDP. The primary balance was indeed mentioned by Mr Portillo last week – the first time by a British Treasury minister.

Its application produces bewildering results. The UK has the highest primary deficit among the industrial countries. On the other hand, Greece, Italy and Belgium – normally regarded as fiscal basket cases – emerge with quite large primary surpluses.

What this means is not that the UK is worse off but that countries such as Italy are in a fiscally bad way and gradually getting better, while the UK starts off from a pretty sound budgetary position but is gradually getting worse. Hence the flap.

In the end experience shows how large a deficit a government can afford and if that is too large no amount of playing with definitions can help.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL
Fax 071 873 5938. Letters transmitted should be clearly typed and not hand written. Please set fax for finest resolution

EBRD's role crucial, but review necessary

From Mr David A J Burns.

Sir, Your continued attacks on the management of the European Bank for Reconstruction and Development, and on the "lifestyle" of its chairman ("High fliers face internal scrutiny at EBRD", May 24), risk undermining the effectiveness of an institution which is making an invaluable contribution to the economic development of the countries of eastern Europe.

As someone who has had quite a few years' experience in doing business in the area both before and after the collapse of the communist regimes, I believe the creation of such an institution has provided a crucial cornerstone for the structuring and provision of the necessary long-term debt and capital that the economies of eastern Europe require.

The complexities and difficulties of doing business in the area are well known and all would concur with the need for a supra-national body to coordinate and establish a basis for an investment philosophy that will contribute to long-term economic growth.

From the outside, the processes of the EBRD might appear to be cumbersome and slow, but the fact is the bank is staffed by highly qualified professionals who understand the business environment, the applicable products and the credit criteria which must necessarily underpin the provision of development capital.

You may well feel that some of the FT's readers are interested by the colour of the marble, the use of corporate jet services and the cost of Christmas parties, but I have no doubt that many others are more interested in what the EBRD has done since its creation a mere two years ago.

David A J Burns,
Hamilton House,
1 Temple Avenue,
London EC4Y 0HA

From Mr L S Davies.

Sir, The EBRD was established to "foster the transition towards open-market oriented economies and to promote private and entrepreneurial initiative in the countries of central and eastern Europe". Discussion on the merits of its in-house expenditures should not be allowed to detract from the need to review its performance towards achieving this objective.

A year ago this week, the European Commission hosted a conference designed to review barriers to business investment in eastern Europe and to identify solutions to the problems. Research had shown that more than one-third of potential investors felt the risk/profitability were unacceptable. A further 20 per cent could not get finance. In this climate, the EBRD could clearly play a useful role.

In practice, the bank's criteria for project approval mean it will find it difficult to bridge the gap. Any project for eastern Europe will need to bear a range of "exceptional" costs for activities such as legal and financial services and for management training, which are bound to reduce its viability. If the bank fails to support these and continues to require commercial viability, it will struggle to convert the "commitments" to "disbursements".

What are desperately needed are projects such as the VW/Skoda venture in the Czech Republic which, although they may not produce much profit in the short-term, will certainly act as catalysts to move cash around the economy.

The EBRD could pump-prime these types of activity by redirecting some of its planned in-house expenditures into supporting the aforementioned "exceptional" costs.

L S Davies,
1 Pinfold Road,
Solihull, West Midlands

Vive la reine

From G Sabbagh.

Sir, To have stated in your story "Queen to be first UK monarch to meet Irish president" (May 22/23) that "even the French have been known to wave flags for her" will, I hope, arouse the fury of many French readers who, like myself, are enthusiastic admirers of the Queen.

The devotion of the French public to the British royal family is without equal outside the UK.

G Sabbagh,
65 rue de Javelot,
75645 Paris, Cedex 13,
France

Macbeth gripping, not a mess

From John and Barbara Richardson.

Sir, Recently one of your correspondents wondered if your critic had actually been to the event he was reviewing. We certainly wondered whether we had been to the same production of Verdi's Macbeth at the Colisaum which Richard Fairman reviewed ("Macbeth in a mess", May 22). His outright rubbishing of this production left us wondering what we were in for, and led to us offering one of our party his money back before we set out.

In fact, we all enjoyed Macbeth enormously; the production was gripping and inventive; Kristine Ciesinski was as theatrical a Lady Macbeth as you could hope to find; Verdi's brass writing had us on the edge of our seats; and the chorus was as lusty as you could wish. One of us had recently seen the Covent Garden Otello, and thought there was no comparison.

Good luck to Poultney in his new job. We only hope his successor can do as well. As to your man Fairman, eye of a newt for him.

John and Barbara Richardson,
156, Turney Road,
London, SE21 7JJ

More to come

From Mr George N Harvie.

Sir, I read with interest the article on welfare benefits by Julian Le Grand (Personal View, May 24) in which he states: "We estimate that over their lifetimes people pay for between two-thirds and three-quarters of the benefits they receive from social security, education and health."

I look forward with even greater interest to a follow-up article explaining who pays the rest.

George N Harvie,
Lower Branscombe,
Warnicombe Lane,
Tiverton, Devon EX16 4NZ

Lloyd's Names should have guarantee of profits accruing to them

From Mr Claud Gurney.

Sir, Messrs David Rowland and Peter Middleton (chairman and chief executive respectively of Lloyd's) are to be congratulated for admitting frankly that there has been massive deception, incompetence and worse at Lloyd's over the last 13 years. No one should be surprised to hear that the only money that Lloyd's has belongs to the Names and they have no magic cheque book hidden away ("Lloyd's urges Names to settle grievances through negotiation", May 26). It is a little more worrying to hear that they still have no proper information on which to manage the business – maybe underwriting should stop until they do have such information.

They both spent much time explaining how they represented *all* Names, but if they really do then they should follow the advice of the EGM2 which follows on naturally from this statement:

(1) They should put together a package which will subsequently be voted on by all Names and will require a two-thirds majority to be implemented.

(2) They should give all Names a shared and common interest in building a profitable future for the society. The only way to do this is to guarantee that 25 per cent of all future profits will accrue to the current Names equally. This is a small price for corporate capital to pay for the goodwill and assets of Lloyd's which belong to current Names and much less than they would have to pay to set it up from scratch.

The only asset that Lloyd's has left is the goodwill and name of Lloyd's. If they reckon that it can produce £900m in 1995 then it is worth around £18bn. This money belongs to Names and we must make sure that it is not given away to their friends. If they do not adopt this position freely then an EGM to be lodged on Friday will force it upon them.

Claud Gurney,
chairman,
EGM Initiative,
Little Chart,
Penshurst, Kent

FINANCIAL TIMES

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Thursday May 27 1993

An attempt to see the future

BRITAIN'S FIRST tborougb review of science policy for 20 years will come as an anticlimax both to those who advocated a radical shake-up and to traditionalists who think the only thing wrong with the present system is a severe shortage of funds.

There is no commitment to increase UK spending on research and development, which has slipped in comparison to other industrialised counties. Nor is there fundamental change in the "dual support system", by which funding for science is channelled primarily through the researcb councils and underpinned by general funds for universities.

More disappointingly, the white peper hardly touches the R&D activities of other government departments. A short and complacent chapter on the Ministry of Defence, which still accounts for almost *half of public spending* on R&D, offers no ideas on switching resources to the civil sector as military research runs down.

Yet the review gets some things rigbt. Splitting up tbe over-extended Science and Engineering Research Council should give new focus to its activities. The Advisory Board for the Research Councils – a confusing and secretive mix of in-house policy-making and outside advice – deserves to be abolished. The new director-general of research councils, advised by independant experts bnt located firmly within the Office of Science and Technology, has a much clearer function. Another welcome change is the replacement of the Advisory Council on Science and Technology – which has often seemed to do little more than produce wortby reports thet everyone ignores – with a more high-powered Council on Science and Technology chaired by Mr William Waldegrave, the minister responsible for science.

But the white paper's most significant proposal is "technology foresight", a process already followed in a number of countries for achieving a better match between publicly funded research and the needs of industry. The aim should not be to pick winners in the form of specific projects but to identify technologies or areas of research that satisfy three criteria: real scientific promise; availability of strong research groups to do the work; and companies willing and able to exploit the outcome of the research. There is oo point, for example, in the government spending £10m on a laser research programme, however exciting, if the UK bas no opto-electronics industry to make lasers.

However, the foresight exercise can work only if a wide range of experts from science, industry, finance, consumer research and government work together. Companies will have to sbow more commitment to relations with government R&D managers. And then they must be ready to pick up the *results of priority research programmes.* In the end, the attitude of indostry will determine whether this white paper succeeds in harnessing Britain's scientific excellence to wealth creation.

Europe's refugees

GERMANY'S MOVE to tighten restrictions on the flood of asylum-seekers is, in its own terms, *wholly understandable. Last year* this flood amounted to 440,000 people, plus at least another 180,000 coming from Yugoslavia outside the asylum category. Because of Germany's past, the revision of the very liberal constitution in a more restrictive direction raises powerful popular emotions, as testified by the demonstrations outside the Bundestag yesterday. But no democratic country can be expected to accommodate an unrestricted torrent of refugees, because *it must create unbearable* social tensions as well as unacceptable budgetary costs.

But if Germany's constitutional reform is a perfectly understandable emergency reaction to a crisis, it is not in itself a solution to the problem. Under the new dispensation, the German authorities will be able to expel most asylum-seekers who arrive across land frontiers, on the grounds that their asylum requests should first have been dealt with by tha *euthorities of these "safe" neighbouring countries.*

This principla is an extension of the Dublin agreement between the 12 EC countries. Wherever an asylum-seeker first sets foot in the Community, thet is the country which is responsible for examining, and either granting or denying, his asylum request. The German government is now seeking to extend this principle to other, non-Community countries; it has already concluded a treaty with Poland to this effect, and is seeking a similar agreement with the Czech and Slovak republics.

A restrictive reform of the German constitution is not by itself a solution, however. First, asylum-seekers will be at least as serious e problem if they are expelled to Poland or the Czech Republic. Second, many of those now in Germany who fail to secure asylum status may secure the right to stay on other, humanitarian grounds. Third, Germany's refugee crisis is only the most acute aspect of a Europe-wide problem.

Most west European countries are *now facing* rising refugee pressure, and many of them are seeking to tighten the rules to make their frontiers more nearly watertight. Britain is in the process of passing a more restrictive version of its asylum law. France is backing out of the Schengen open frontiers agreement, embarking on a systematic police search for illegal foreigners, and restricting access to French nationality.

Exclusion is an understandable emergency reaction. It needs to be followed by more constructive policies, on e Europe-wide basis, for dealing with the reality of large numbers of people who will not disappear because they are denied refugee status. Europe must afford reasonable humane protection for those manifestly in need of it, whatever the definition. But it all underscores the importance of Europe taking more energetic measures to help stabilise countries from which the refugees come.

Private projects

THE GOVERNMENT'S private finance initiative could transform the way in which important capital projects are carried out in the UK, Mr Norman Lamont told a conference organised by the Confederation of British Industry yesterday. If true, this would not be before time. The comments of Mr François Mitterrand on the contrast between the two rail links to the Channel tunnel have merely reminded the public how urgently this transformation is needed.

The new rules, announced in last year'e Autumn Statement, overturned the Treasury's long-standing view that the private sector should not undertake anything the public sector could, in principle, do more cheaply. Any project can now go ahead, provided government contributions give value for money to the taxpayer, private participation in joint ventures is usually decided on the basis of competition, and substantial risk is assumed by the private sector.

The government is looking for three kinds of private involvement in infrastructure: development and implementation of projects in the private sector; greater use of operating leases, in which the private lessor retains some responsibility for managing the asset; and joint ventures between the private and public sectors, such as London's Crossrail.

There are two reasons for wanting private involvement in infrastructure. The silly reason is to evade constraints imposed by limits on sector borrowing. The sensible one is to improve efficiency.

Private finance is not, insists the chancellor, about evading public expenditure controls. He protests too much. One reason for the initiative is indeed to evade such arbitrary constraints. The problem is not simply the Treasury's past unwillingness to distinguish capital from current spending. It is the failure to go beyond annual cash flow accounting. *What is needed* is a public sector balance sheet, in which increases in assets can be set against liabilities.

Tha chief justificatioo for greater private sector involvement is, however, in Mr Lamont's words, to harness "private sector skills – in design, in construction and, above all, in management". This is to be distinguished from pricing. Charging users does not entail private ownership and private ownership does not entail charging individual users.

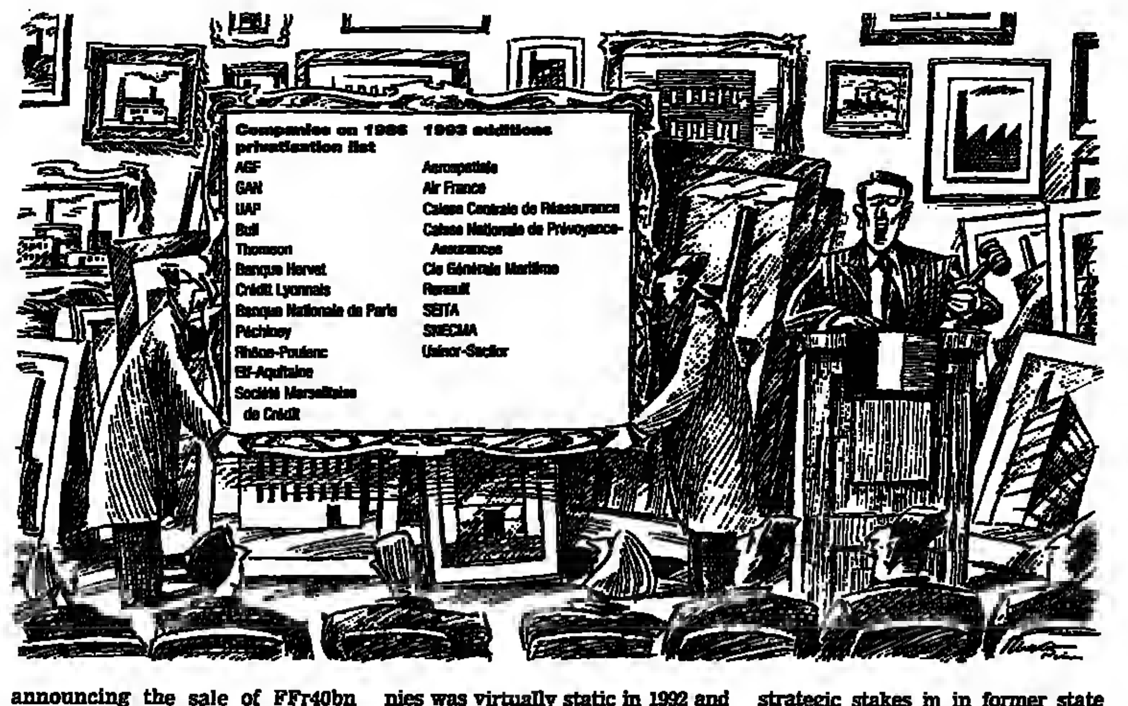
What is essential is private sector risk-taking. Otherwise, hopes for greater financial discipline will be disappointed. The government must not only state thet financial failure will lead to liquidation, but stick to that hard line in practice.

The government's initiative for private finance is to be welcomed, mainly because it may lead to better projects, though private participants must face risks if this is to happen.

Subject to thet proviso, Howard Davies, director-general of the CBI, was right to tell the government to get a move on. The new ideas can be beneficial, but not if they are stuck in the Treasury's pending tray.

Alice Rawsthorn and **David Buchan** on a privatisation plan designed to deal with unfinished 1980s business

French left-overs on the block



The Balladur government *yesterday* unveiled *its* privatisation plan, designed to roll back the frontiers of state involvement in the French economy and, just as important, to help finance recovery and the struggle against rising unemployment.

The list of 21 companies to be sold off is impressive. Twelve – notably the two big banks, Crédit Lyonnais and Banqua Nationale de Paris; the three insurance companies, UAP, GAN and Assurances Générales de France; and Rhôoe-Poulenc, Elf-Aquitaine, and Péchiney, in chemicals, oil and metals, respectively – were scheduled for privatisation in 1986 wben the conservatives were last in government, and Mr Edouard Balladur was finance minister. Rescheduling them for sala deals with business left unfinished when the stock market crashed in 1987 and the Socialists won victory in 1988.

But the 1993 list puts nime new companies on the auction block. Three are what earlier Frencb governmants regarded as sacred *national institutions* – the *motor* company Renault, Air France, the state's flagship carrier; and Aerospatiale, part maker of Airbus and France's nuclear missiles.

The eventual passage of all these companies into private hands would radically reduce the size of what is still, after Italy, Europe's biggest public sector. The privatisation process would also probably be irreversible by any future socialist government – not only on grounds of cost. At yesterday's cabinet meeting, which approved the draft privatisation bill, *President François Mitterrand* voiced tha sama "public interest" reservations he had in 1986 when he temporarily blocked the privatisation decree.

This time, the government faces no political problems in getting privatisation through parliament. But Mr Edmond Alphandéry, the economy minister, has no delusions about the scale of the financial challenge ahead. Whereas the last French privatisation drive began in the huoyant environment of the mid-1980s, the new phase is being launched at e far less favourable time, when the French economy is in recession, the Paris stock market is volatile and some of the candidates for sale are under intense financial pressure. The critical question for Mr Alphandéry is whether current market conditions will impede his privatisation plans.

However unfavourable the timing, the new French government has little option but to proceed. Indeed, as became alarmingly clear *this week, getting a large amount of* cash from a successful sell-off of state assets is the only way it can both restrain public borrowing and finance economic recovery. In announcing the sale of FFr40bn worth of "Balladur bonds" – which will pump a total of FFr26bn in new money into unemploymant programmes, public works and housing – the government said it still planned to keep the 1993 budget deficit at FFr317bn. This means, as Mr Alphandéry spelled out yesterday, that it needs to get tbe entire FFr40bn equivalent of the special bond issue back this year in privatisation proceeds.

The critical question is whether the stock market will be able to absorb the stream of newly privatised French companies. At first glance the omens are bad. The last centre-right government sold off FFr120bn of public sector companies in 29 flotations between spring 1986, when it came to power, and the market crash in October of the following year. The success of those share sales was fuelled both by the dynamism of the Paris stock market and by a keen appetite among inter*national investors* for the *then*-novel French privatisation stocks.

Times have changed. The Paris market is in a fragile state. The CAC 40 Index of 40 leading companies was virtually static in 1992 and has mustered only a slight increase from 1,858 at the end of last year to 1,890 yesterday. The Frencb economy whicb, until recently, was more resilient than its European counterparts, is now technically in recession. The government estimates that gross domestic product will fall by 0.1 per cent this year.

Despite this gloomy scenario, international investors have remained relatively positive about French equities. Warburg Securities estimates that although the Paris Bourse accounts for 23 per cent of the value of continental European stock markets, it represents about 26 per cent of a typical continental portfolio. However, international investors have recently been adding little to their French portfolios because the strong franc makes French shares more expensive.

International investors might also be deterred by the French government's efforts to "protect" the *newly privatised companies. Mr* Alphandéry has revived the *noyaux durs* concept favoured hy the last centre-right government of encouraging long-term investors to take strategic stakes in in former state companies. He has, though, said such shareholder groups will be open to foreign companies, thereby scrapping the 20 per cent ceiling thet limited foreign stakes in the previous privatisation round.

He has also extended the "golden share" system, whereby the government can block bids in strategically important groups. Whereas the 1986 "golden share" lasted for five years, its 1993 version will have an indefinite lifespan. This is the government's price for extending privatisation into the defence sector, with Aérospatiale and Thomson, the electronics group, up for eventual sale.

"There is still an appetite for privatisation stocks, as the success of the recent Spanish issues has shown," said Mr Joe Hall, head of European equities at Warburg. "But investors are much more discerning about what they will buy now than they were in the mid-1980s. The French government will have to be *careful to present the right* companies at the right price, unless it is willing to risk selling recovery stocks at e discount."

A number of privatisation candidates fall into the "recovery" category. The Crédit Lyonnais banking group lurched into the red in 1992 and earlier this montb warned of difficulties in France this year. UAP and GAN, the insurers, suffered sharp falls in profits last year. The Bull computer group made a loss in 1992, as did Air France.

The consensus among observers is thet the first candidates for sale will be more robust industrial concerns such as Elf, Rhône-Poulenc and Péchiney. The likeliest financial contenders are AGF, the most resilient of the insurers, and BNP, *which is seen as a safer bet in bank*ing than Crédit Lyonnais.

Both the industrial and the financial groups are keen to see an end to the financial engineering whicb has sometimes eccompanied state ownership: for instance, BNP reluctantly had to take a stake in Air France, and Péchiney had to acquire a stock market quotation for its international operations in order to make foreign acquisitions.

The Paris Bourse is also hoping for an end to its traditional liquidity problem. Mr Alpbandéry bas already proposed to abolish investment tax on small investments, and yesterday's bill encourages employees to buy shares in their newly privatised companies. His overall goal is to persuade French investors to switch some of the FFr1,200bn now invested in money market funds into equities.

It is very doubtful whetber this second wave of privatisations will bave tbe same impact on the Paris marketplace as the first wave. Tbe number of individual owners of shares rose from 1.7m in 1986 to 6m two years later. Such an increase would be hard to repeat.

But, regardless of what happens on the stock market, yesterday's bill probably marks a turning point in French industrial policy, particularly for those companies, like Bull or Air France, which may be distant privatisation prospects. In the short and medium term, "the way will be open for them to seek industrial partners which in many cases are a condition of their survival", Mr Alphandéry said.

Privatisation is also likely to have a knock-on effect on the "monopolies" such as France Telecom, Electricité de France and Gaz de France. As monopolies at least at the retail level, these utilities are to stay within the state sector, but the industry ministry plans to introduce competition in some of their activities. Although this privatisation is not as far-reaching as those in the UK under Mrs Margaret *Thatcher, one day France's* otilities might end up in the private sector. Mr Alphandéry has said that any company "in the competitiva sector" can be put up for sale.

The Eurobond market has been transformed since its launch 30 years ago, says **Tracy Corrigan**

Dull can be dynamic

In June 1963, Autostrade, an Italian financing agency, issued $15m of bonds through S G Warburg, the UK merchant bank, to build a motorway. Since then, companies, banks, governments and agencies have borrowed more than $2,000bn on the Eurobond market, according to IFR Securities Data, which tracks Eurobond issues.

Once a small offshore market designed to circumvent regulatory barriers, the Eurobond market today boasts outstanding bonds totalling an estimated $1,300bn. Turnover in the market reached more than $7,000bn last year, according to the International Securities Market Associetion (Isma), the industry's trade body.

As dealers gather today in Copenhagen for Isma's annual meeting, they will be celebrating the 30th anniversary of a market which has undergone radical change.

"The market is virtually unrecognisable from the early days," says Mr Stanislaus Yassukovich, former head of the Securities Association and of Merrill Lynch Europe. "It is a high-volume, low-margin business, which no longer requires the amount of executive attention that it got in the early days."

Twenty years ago, those entering the City from Oxbridge or the army became stockbrokers. But by the middle 1980s, any lingering sense that working in the Eurobond market was inferior had been cast off. The influx of US banks and securities houses brought a spirit of meritocracy to the City, plus competition between houses, which fuelled innovation but squeezed profits.

Some old hands lament the passing of the so-called "star" system of prominent bankers who once held sway over the market and were credited with its growth.

"It has moved from a market dominated by individuals to a market dominated by companies," says Mr John Langton, chairman of Isma, who began his career in the back office of Strauss Turnbull, a brokerage house.

Today, there are no personality cults, and nights at Annabels have been curtailed by the demands of 7am starts. Traders who used to work on gut instinct do not make a move witbout running charts through a computer.

"From the point of view of career satisfaction or intellectual interest, it's duller," said Mr Yassukovich.

Bot there are compensations – profit for one. The mature Eurobond market which is emerging at the end of its third decade is also more lucrative. In the 1990s, perhaps dull is good, because some of the reasons for the market's new-found dullness are also at the root of its dynamic growth.

Over the past 10 yaars, retail investors, once easy gama for aggressive salesmen, have all but disappeared from the market, preferring instead to place their money in pension funds or other collective investments. As a result, the investor base of the Eurobond market now consists mainly of professional institutional investors, whose analysis of the market is more rigorous.

In addition, US houses started to use their own capital to trade themselves from so-called "arbitrage" desks. Initially, they made money by taking advantage of the *anomolies which existed between markets,* bnt these were gradually evened out in another step towards more rationally priced markets.

Second, the 1980s were a period of regulatory liberalisation. As the barriers between markets fell away, restrictions on investment disappeared, and instead of being a separate entity, removed from any domestic market denominated in the same currency, Eurohonds became virtually indistinguishable from many domestic bonds. This blurring of the lines made it easier to compare value between markets.

In addition, the Latin American debt crisis of the early 1980s left banks nursing their wounds, and unable or unwilling to meet the financing needs of companies in the buoyant years of the 1980s. Many turned instead to the Eurobond market, again broadening the range of investments available.

Last, the advent of the swaps market, which allows borrowers to ewap the proceeds of a bond issue into whicbever cnrrency is required, created further freedom of movament *between international* and domestic markets.

The Eurobond market is now a vital, if not esseotial, source of funding for agencies, governments, banks and companies around the world. For example, when the npbeavals of Europe's exchange rate mechanism last September left several governments in urgent need of fresh funds to replenisb their reserves, the Eurobond market proved the cheapest and quickest source of funds available.

While some dealers may start to get misty-eyed as they reminisce in Copenhagen tonight, not everyone harks back to a golden age. Many are relieved that the market has at last cast off its barrow-boy image. Tales of salesmen arriving in the Middle-East, armed with brief-cases stuffed with bond certificates and a strong sales pitch, and returning with wads of petro-dollars, make for colourful bar-room anecdotes but do not foster the impression of professionalism whicb is now considered *de rigueur*.

In any case, memory can prove deceptive. "Doo't let them kid you," warns Mr Peter Luthy, a partner of Lnthy, Baillie, a bond boutique. "There were a lot of dull people and *dull times* in the *old days too.*"

OBSERVER

'Committed' suicide

■ Are you a charismatic leader? If so, you would be well advised not to mention the fact in a job application, not even if you are committed and dynamic into the bargain.

All of those terms are on a black-list being circulated by London headhunter John Courtis of phrases now odds-on to send executive candidates' hopes crashing into the recruiter's waste bin.

It is likewise best to avoid describing yourself as seeking a new challenge either as a self-starter, team-player, communicator, strategist or conceptual thinker – whether or not successful, market-oriented, loyal, assertive, conscientious, innovative, and/or enthusiastic.

One of the few claims that remain admissible in the Nasty Nineties, he says, is membership of the high-IQ society Mensa... but only if you have since resigned.

A further point, which might be useful to executives still in jobs as well as to those seeking them, emerges from Courtis's advice on applying through consultants, as distinct from directly to an employer. "Never refer to them as agencies," he warns.

"Most agencies will be flattered if you call them consultancies. Nearly all consultants will be offended if you call them agencies."

So anyone with a score to settle against McKinseys or the like, now knows how to proceed.

Enarques parked

■ The snooty Enarquy – students of the Ecole Nationale d'Administration, France's equivalent of the Ivy League and Oxbridge combined – never did like short-lived prime minister Edith Cresson's idea of banishing them from their leafy Paris headquarters to Strasbourg.

The Cresson plan, ostensibly part of the socialists' decentralisation programme to move public institutions to the provinces, was always seen as a thinly disguised affront to the ENA whose products abound *in political high places.*

But the Enarques have battled back. Only two months after the socialists lost power, a government commission has asked for the Cresson edict to be dropped. The matter has now been passed on to a Paris magistrate's court which will have the final decision on whether or not ENA can stay parked in the capital.

No prizes for guessing the outcome now.

Knife edge

■ "The best of pals" has not been the best of descriptions for two of the Treasury's consultant clairvoyants, Tim Congdon and Patrick Minford. The reason is that Congdon has openly declared that Minford's knowledge of economics leaves much to be desired.

Hence the fascination of their scheduled appearance together this evening on a public platform at the Cardiff Business School, where they both hold chairs. Will they bury the hatchet, or put one another to the sword?

'Ian was shot the other day but the bullet bounced off his railcard'

Lame duck

■ *Determined to sell its policies* to the Brits, the European Commission has hired a public relations outfit called Kestrel whose press releases on EC consumer protection measures have since flown far and wide. What they haven't been doing, alas, is flying fast.

Take, for example, last month's attempt to interest the media in EC product liability law. It fell flat, achieving only one small and bilious snippet in the whole of the national press. Perhaps that was because the law is five years old.

To cap that, however, the "News-Urgent" missive that winged its way to the nation's editors yesterday managed to be both too late and too early at the same time. Its subject was a consumer cootracts directive adopted by EC ministers seven weeks ago, which will not take effect until 1995.

Loaded down

■ A survey just published in Hong Kong seems to rebut the celebrated riposte of philosopher C E M Joad when asked if a good man could be happy on the rack: "Yes – provided he is the saintliest of men, and it is the lousiest of racks."

The Asia-wide study by the Survey Research consultancy found that the happiest nations were impoverished Indonesia and the Philippines, with 94 per cent of people questioned pronouncing themselves happy in each case. The most depressed, on the other hand, were the rich Japanese a *full 30 points lower on the scale.*

The survey firm summed up the findings with a Chinese proverb saying that, while the contented can make light of poverty, the discontented will remain so no matter how rich they be.

To which the Japanese might reply: "But at least they can be miserable in comfort."

Choked off

■ Not even a police escort was enough to get German foreign office mandarin Dieter Kastrup to his desk through yesterday's left-wing demonstration in Bonn against the tightening up of asylum laws. His car was spotted and forced into a side street under a hail of stones.

So he decided to smuggle himself into work under what, for a bureaucrat, is a deep disguise. He took off his tie, and strolled casually up to the door. The trouble was that the attendant took one lcok at his open collar, and refused to let him in.

Fortunately his repeated claims to being state secretary led to tha summoning of security guards who, after demanding to see his identity card, let him pass. Whereupon, of course, he replaced his tie.

To boot

■ W H Smith would seem to be siding with Tottenham Hotspur chairman Alan Sugar in his dispute with club chief executive Terry Venables. The retail chain's *Hammersmith branch is displaying* a pila of board games fronted with a large portrait of Venables and the title: *How to be a manager.*

They've been marked down from £14.99 to £7.49.

FINANCIAL TIMES
Thursday May 27 1993

Delors seeks to restart drive to EC political and economic union

By Andrew Hill in Strasbourg

MR Jacques Delors, president of the European Commission, yesterday made his boldest attempt this year to relaunch the European Community's drive towards deeper political and economic union.

In a speech to the European Parliament, he urged the EC to press ahead with the next phase of economic and monetary union and the streamlining of decision-making powers now that the Danes had voted in favour of the Maastricht treaty.

Mr Delors criticised the "beggar-my-neighbour" policy of competitive devaluation of currencies and urged the EC to support the putative single European currency, the Ecu, which remained "a sad orphan".

"We must try to recover the euphoria which was evident at the birth of the Community and was still alive until very recently," said Mr Delors, who has been keeping a comparatively low profile recently.

Mr Delors said he was still deeply concerned by the grave economic crisis in Europe and the situation in the former Yugoslav republics, but in political terms "the train is back on the tracks".

The Commission president also ended the year-old taboo on discussion of institutional reform of the Community by saying it was time to draw up a "blueprint for a greater Europe".

Last year's vote against Maastricht in the first Danish referendum was partly blamed on fears that EC decision-making would be amended, once new members joined the Community, to limit the use of national vetoes.

Mr Delors said yesterday that the EC would be "groping in the dark" if it pressed on with the admission of Finland, Norway, Sweden and Austria, members of the European Free Trade Association, without considering how a greater Europe would work. "We must have a Community which is political, efficient in its decision-making and which can constantly deepen its own sense of unity," he said.

Mr Delors said discussion on the shape of a future European union could "start today", a rebuff to the British view that reforms will have to wait until after enlargement of the EC. Mr John Major, the British prime minister, has said the EC should have the new members in place before any further consideration is given to institutional change.

In spite of its enthusiasm for greater integration, Belgium, which takes over the EC presidency from Denmark in July, has said the EC should wait for the admission of new members before pressing for more federal and supranational decision-making process.

Both Mr Delors and Mr Henning Christophersen, the EC economic affairs commissioner, yesterday warned that Europe's record on growth and employment was in danger of further deteriorating against the US and Japan if efforts were not made to improve co-ordination of member states' economic and monetary policies.

Today in Bonn, Sir Leon Brittan, the EC's trade commissioner, will urge the EC to concentrate on existing challenges, including the Gatt, Emu and relations with eastern and central Europe.

Delors makes services a Gatt priority, Page 4

Deputies face protests as Bonn debates asylum laws

By Ariane Genillard in Bonn and Lionel Barber in Brussels

THE RIVAL decibels of anti-racist rock bands and police helicopters shattered the calm of Bonn yesterday as German parliamentarians gathered in a session aimed at curbing the country's liberal asylum law.

Some 5,000 young demonstrators protested against changing article 16 of the constitution, which has until now granted any refugee the right to seek asylum in the country. The amendment will allow Germany to send back asylum-seekers to neighbouring countries such as Poland and the Czech Republic.

Parliamentarians – hundreds of whom were brought in by special ferry or helicopter to bypass a human chain of protesters – were still debating the amendment last night. But approval seemed secured after the opposition Social Democrats (SPD), agreed on Tuesday to push the constitutional change through.

The SPD approval closes two years of a fierce debate over Germany's liberal asylum law. Refugees have been applying for asylum at the rate of 1,400 per day since the beginning of the year. In 1992, some 440,000 asylum demands were filed.

It comes as EC interior ministers are expected to approve tough new measures to control illegal immigration across the Community at a meeting in Copenhagen next week.

The measures include stricter checks on foreign students and residents working illegally inside the EC; a crackdown on people without residents' permits, as well as closer monitoring of short-term visitors, tourists and others who are authorised to be reunited with their family but not authorised to work.

The get-tough policy reflects increasing concern about illegal immigration in Germany.

Mr Wolfgang Schäuble, head of the parliamentary club of the ruling Christian Democratic Union (CDU), in parliament yesterday called for more burden-sharing in Europe in dealing with asylum-seekers.

Germany currently has two-thirds of all asylum-seekers in Europe. But the EC move on illegal migrants has been given added impetus by the new French government and Mr Charles Pasqua, the hard-line interior minister.

Last November, EC member states agreed to send asylum-seekers with "manifestly unfounded" claims to "safe" countries – a move which Amnesty International says will have the effect of dumping asylum-seekers in eastern and central Europe.

The German constitutional change will allow border guards to immediately turn back asylum-seekers. Over 80 per cent of asylum-seekers entering Germany last year crossed the Polish or Czech borders.

The constitutional change will also pave the way for the long-awaited German ratification of the Shengen convention which aims to foster co-operation among European community member states. The convention allows asylum-seekers in the EC to be returned to the member country in which they originally arrived.

Editorial Comment, Page 21

UK rift as Lamont fights for his job

By Philip Stephens and Alison Smith in London

THE BRITISH government was last night threatened with a serious rift because of a behind-the-scenes battle over Mr Norman Lamont's position as chancellor of the exchequer.

As the political momentum built up for an early reshuffle of Mr John Major's cabinet, Mr Lamont was said to be fighting hard to resist the mounting pressure on his position.

Cabinet colleagues said the chancellor was insisting he should not be made the "scapegoat" for the government's political difficulties.

Mr Lamont, who made it clear that he intends to spend the next few days pressing ahead with preparations for the annual review of public spending, was said by friends to have won significant support among rank-and-file Conservative MPs.

But the prime minister's office declined to quash the wave of speculation that Mr Major was preparing to shake-up his ministerial team.

Senior party figures meanwhile were making little secret of their belief that Mr Lamont should be replaced at the Treasury as soon as possible.

Mr Kenneth Clarke, home secretary; Mr Michael Howard, environment secretary; Mr Malcolm Rifkind, the defence secretary; and Mr John MacGregor, transport secretary, were all being promoted as suitable replacements for Mr Lamont.

Some MPs suggested that a reshuffle could come as early as today but the consensus among senior ministers was that Mr Major would consider his options during the Whitsun recess after parliament breaks up later today.

Mr Major made it clear in his interview this week with the Financial Times that he would not be pushed into a reshuffle by media speculation or by attempts to "assassinate" members of the cabinet. But he is now being warned that the speculation is destabilising the government.

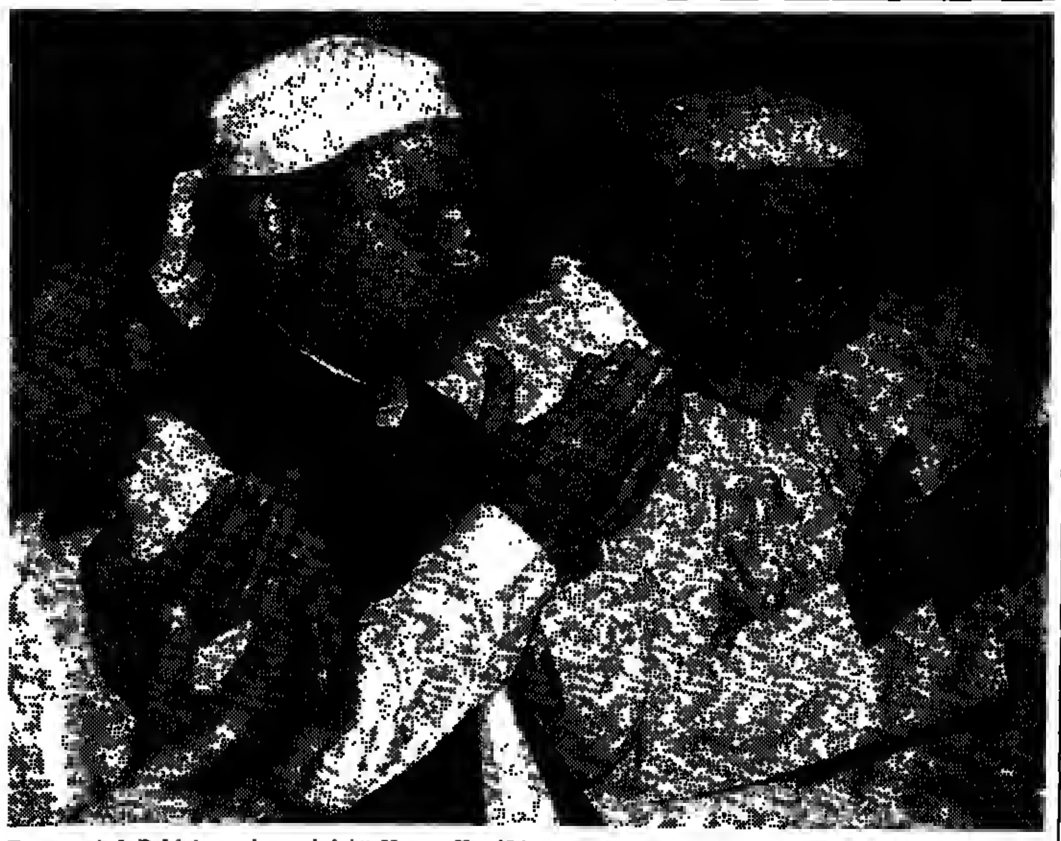
The impression of disarray was reinforced yesterday when Mr Lamont and Mr MacGregor offered markedly different assessments of the ultimate goal of the government's proposals for road pricing.

Mr MacGregor was dismayed at the chancellor's suggestion that motorway charges would lead eventually to privatisation of large sections of the roads network.

The appearance of disunity was further underlined by an unrelated row between Mr MacGregor and Mr William Waldegrave, the public services and science minister.

Mr Waldegrave was furious that a policy document unveiling the first overhaul in decades of the government's science policy had been overshadowed by Mr MacGregor's discussion paper on motorway tolls.

Motorway proposals, Page 8
Science strategy, Page 10



Resurrected: Pakistan prime minister Nawaz Sharif (centre) at prayer with supporters yesterday

Pakistan parliament restored

Continued from Page 1

dent of Pakistan, is not within the ambit of the powers conferred on the president... and has therefore been passed without lawful authority," the court said.

The decision removed from office the interim government installed by the president, which had included members of Ms Benazir Bhutto's opposition party. It meant that elections which Mr Khan had called for July 14 would not be necessary.

However, Mr Sharif's future remained uncertain amid talk of moves to remove him through a vote of no confidence in the National Assembly, perhaps as early as today.

Ms Bhutto said: "The political reality is that the people and the country want fresh elections to choose a representative government." Boarding a flight from Karachi to Islamabad, she said: "We must proceed with great caution to see that Pakistan is safe from any chaos."

The detailed judgment has not been published. It is believed to have been made partly on the grounds that the president acted in haste without trying to resolve a government crisis through mediation. Mr Sharif had been seeking to remove the presidential powers which Mr Khan used to dismiss him, as well to eject Ms Bhutto's government in 1990.

Mr Sharif described the judgment as an important milestone in Pakistan's history. He led a crowd to Islamabad's Faisal mosque where he offered prayers of thanksgiving.

It is unclear whether Mr Sharif will be able to establish a working relationship with Mr Khan, given the bitter relationship between them, even though Mr Khan's term of office as president is due to end in November.

World Weather

		°C	°F
Ajaccio	S	27	81
Algiers	S	24	75
Amsterdam	S	20	68
Athens	F	24	75
Bahrain	S	35	95
Bangkok	F	34	93
Barcelona	S	23	73
Beijing	S	30	86
Beirut	S	23	73
Belfast	F	10	50
Belgrade	F	27	81
Berlin	C	15	59
Bermuda	C	22	72
Bombay	F	32	90
Bordeaux	F	18	64
Boulogne	C	24	75
Brussels	S	24	75
Budapest	F	29	84
Buenos Aires	F	12	53
Cairo	S	32	90
Cape Town	C	15	59
Caracas	C	29	84
Casablanca †	C	23	73
Chicago †	S	11	52
Cologne	S	27	81
Copenhagen	F	13	56
Corfu	S	26	79
Dallas †	F	19	66
Dublin	C	9	48
Dubrovnik	S	25	77
Edinburgh	C	8	46
Faro	F	20	68
Florence	S	30	86
Frankfurt	F	28	82
Geneva	S	27	81
Gibraltar	C	20	68
Glasgow	C	10	50
Helsinki	C	8	46
Hong Kong	F	25	77
Innsbruck	S	31	88
Inverness	C	9	48
Islamabad	F	41	106
Istanbul	F	19	66
Jakarta	C	32	90
Johannesburg	F	23	73
Lisbon	F	19	66
London	F	16	61
Los Angeles †	S	16	61
Luxembourg	S	27	81
Madeira	C	17	63
Madrid	F	17	63
Majorca	F	23	73
Malaga	F	23	73
Malta	S	27	81
Manila	F	37	99
Melbourne	C	15	59
Mexico City		–	–
Miami †	S	29	79
Milan	S	29	84
Montreal †	C	10	50
Moscow	C	7	45
Munich	S	29	84
Nairobi	F	26	79
Naples	S	26	79
Nassau	F	28	82
New Delhi	S	38	100
New York †	F	17	63
Nice	S	23	73
Nicosia	S	22	72
Oporto	C	14	57
Oslo	F	13	55
Paris	F	23	73
Prague	S	23	73
Reykjavik	S	9	48
Rhodes	S	24	75
Rio d'Janeiro	C	28	82
Rome	S	24	75
Salzburg	S	29	84
S'Francisco †	F	17	63
Seoul	F	25	77
Singapore	F	31	88
Stockholm	C	10	50
Strasbourg	S	29	84
Sydney	C	17	63
Taipei	R	27	81
Tangier	C	20	68
Tel Aviv	S	28	82
Tenerife	C	21	70
Tokyo	R	23	73
Toronto †	S	9	48
Tunis	S	32	90
Valencia	F	26	79
Venice	S	25	77
Vienna	S	28	82
Warsaw	S	15	59
Washington †	R	17	63
Zurich	S	29	84

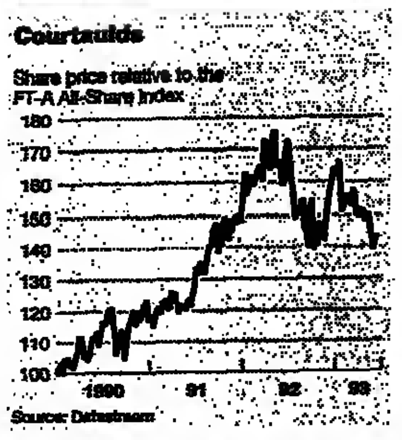
Temperatures at midday yesterday
† Noon GMT temperatures
C–Cloudy Dr–Drizzle
F–Fair Fg–Fog H–Hail
R–Rain S–Sunny
Sl–Sleet Sn–Snow
T–Thunder

THE LEX COLUMN

France's sale season

FT-SE Index: 2846.9 (+9.2)

Courtaulds
Share price relative to the FT-A All-Share Index



Source: Datastream

The details of France's massive privatisation programme highlight how the process is being driven by pragmatic politicians with financial problems to solve rather than wild-eyed ideologues with dogmas to prove. Despite Mr Edmond Alphandéry's free-market training at the University of Chicago, the economy minister has adopted a typically Gallic approach. The state will retain significant influence over its 21 liberated offspring by means of extensive golden shares and privileged shareholder groups. Such measures will doubtless irritate investors reared in Anglo-Saxon markets but are unlikely to deter them if the pricing is right. This may prove tricky given recent wobbles in the economy and stock market.

The government may eventually raise up to FFr400bn selling off the biggest of the 2,600 companies it owns. This will make a big dent in France's national debt. It will also provide more flexibility in softening the effects of its recent budgetary rigour. The government is now busy devising neat ways of attracting domestic investors through tax incentives. This week's FFr40bn government bond, which can be converted into equity in privatised companies, represents another ingenious enticement.

Yet the real stimulus for investors would be further interest rate cuts. This would simultaneously suck funds into the market by decreasing the attraction of cash while reassuring investors the damage to the underlying economy would ease. A gesture from the Bundesbank may yet prove the French government's saving grace.

UBS

Union Bank of Switzerland has been taking a while to live down the row sparked by the increase in authorised capital approved by last month's annual meeting. Critics accuse the board of wording the request in a way that slides round the improved protection of shareholders' pre-emption rights enshrined in the new Swiss company law. In practice, though, there is little chance of UBS overriding pre-emption rights except in connection with an acquisition, which is anyway permitted under the law.

Nor does the capital increase seem specifically intended for a takeover, since the bank is apparently backing away from the idea of an acquisition in the US. The extra resources would help if an opportunity did arise, but it looks increasingly as though UBS is simply manifesting a typically Swiss bank addiction to rights issues which underpin balance sheet growth. UBS may not like to admit it, but it cannot relish the thought of being overtaken in terms of total assets by the CS group which now owns Swiss Volksbank.

It would be a pity if UBS let such concerns distort its priorities. It is usually better for banks to rely on retained earnings rather than shareholders for extra capital, especially when they are making low returns. UBS is well short of its medium-term target of 10 per cent for return on shareholders' funds. Its return of just over 7 per cent compares with nearly 12 for CS Holding. It would do well to catch up on that measure before worrying too much about the size of its balance sheet.

Courtaulds

Far from making the rights issue the market feared, Courtaulds did not even offer an enhanced scrip dividend with its full-year results. Plenty of other companies with £39m unrelieved advance corporation tax and chunky capital expenditure plans would have leapt at the opportunity, but that is not Courtaulds' style. Even so, gearing of only 40 per cent owes a lot to the cash extracted from the pension fund surplus before the year end. Profits were equally flattered by a pension fund credit, which will be £9m lower this year, and by translation of overseas profits into sterling at an attractive rate.

Whether Courtaulds' main markets improve before its luck turns in the currency markets remains an open question. The outlook in defence and aerospace is hardly encouraging, although weaker sterling will almost certainly make for better export prospects this year than in the first half of last. The joint venture with Hoechst in acrylic and viscose fibres also looks adroit. Since Courtaulds' existing capacity is at full stretch, operating margins on the £130m new turnover to be consolidated should eventually be well up with the group average of 10 per cent – although possibly not before a restructuring charge.

That suggests another tough year to come. But while there are many other industrial companies more geared to recovery, an increased dividend covered more than twice by earnings makes Courtaulds stand out from the crowd.

North West Water

Residents of Manchester and Liverpool may be surprised to learn that their environment is similar to that in Malaysia, Bangkok and Mexico City. But that is the view North West Water takes of their plumbing when it argues that its overseas diversification programme is a low-risk extension of its existing business. International activities are, however, rarely as simple – or indeed profitable – as optimistic managers fondly believe at the outset. Joint ventures also bring an added level of complication and potential mishap, while 30-year operating contracts in the developing world may carry additional risks.

Investors may thus be unhappy that the £60m of cash saved by North West's enhanced scrip dividend will be ploughed into its loss-making international operations. Especially since the company has not seen fit to explain what returns it expects to earn abroad or even when those operations will become profitable. It must also be questionable whether a recently privatised utility has the management strength to tackle a large portfolio of foreign operating contracts.

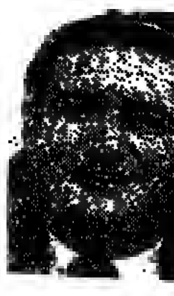
Since other water companies also have high capital expenditure and unrelieved advance corporation tax, more enhanced scrip dividends may be expected. Ofwat, while not directly involved, may view them as a sensible tool to help balance debt and equity finance. Though whether they prove to be any more than a one-off will depend both on the Inland Revenue, and on whether Ofwat regards 50 per cent increases in scrip dividends as an acceptable price to pay.

FINANCIAL TIMES
COMPANIES & MARKETS

Thursday May 27 1993

INSIDE

Tandy drops plan to split in two



Tandy, the US consumer electronics group headed by John Roach (left), has decided not to split its retailing and manufacturing sides into two independently-quoted companies. The Texas-based group said it would sell part of its PC-making operations to AST Research, a California-based manufacturer of IBM-compatible desktop and notebook computers, and divest much of the remaining manufacturing business. Page 26

Sharp hit by rising yen

Pre-tax profits at Sharp, the Japanese consumer electronics and office equipment maker, have fallen 37 per cent to Y44.5bn ($405m) reflecting the downturn in the Japanese economy and the appreciation of the yen. Sharp sells about 50 per cent of its products overseas. Page 25

UBS sits on its cash

Union Bank of Switzerland does not intend to make a large acquisition within the next two years, according to its executive vice-president Ulrich Grete. His comments come in the wake of the bank's controversial resolution at last month's annual meeting to raise authorised equity capital by about 8 per cent for possible use in financing takeovers, and follows stock market rumours that UBS was planning a takeover of Lehman Brothers, the investment banking subsidiary of American Express. Page 24

Death of foreign investment

A decision by Bolivia's Supreme Court may put the final nail in the coffin of Bolivia's attempts to attract foreign investment to its mining sector. The main danger for the country's mining industry is spelled out by Armando Guzman, executive director of a state mining group, who said: "It would stop all foreign investment coming to Bolivia." Page 32

Uncertain times in Venezuela

If 1992 was a bad year for Venezuela's equity market, 1993 is not shaping up to be much better. Since early last year, political upheaval and continued uncertainty over future economic policies, together with high domestic interest rates, have hurt the performance of the Caracas stock exchange. Back Page

Market Statistics

Companies in this issue

Chief price changes yesterday

FRANKFURT (DM)				**PARIS (FFr)**			
Rises				**Rises**			
AG Ind & Verk	555	+	14	Lafarge Coppee	352.9	+	11.4
Rheinelektra	885	+	32	Legrand	4485	+	151
VEW	263	+	8.5	UFB Locabail	274.5	+	18.5
Falls				**Falls**			
Continental AG	192	−	3.6	Fonc Lyonnaise	576	−	25
Lufthansa	102.2	−	3.8	Immo de France	550	−	20
PWA	153	−	3.9	Schneider	669	−	21
NEW YORK ($)				**TOKYO (Yen)**			
Rises				**Rises**			
Compaq Compuîr	58¼	+	1¾	Dowa Fire & Mr	689	+	34
First Republic	12¼	+	1⅛	Ind Bank Japan	2880	+	140
IBM	52	+	1⅛	Orient	894	+	44
				Tohpe	779	+	129
Falls				**Falls**			
Conner Perphls	11¾	−	1	Kyotard	1180	−	60
Novell	29½	−	2⅛	Nittan Valve	835	−	55
T2	15¼	−	1½				

New York prices at 12:30.

LONDON (Pence)				Quality Sftwre	519	+	23
Rises				Reuters	1352	+	44
Aminer	21	+	3¼	Tiphook	311	+	12
Argyll Group	328	+	14	Umeco	39	+	3
Bagden Inds	173	+	8	Waverley Mng	27	+	3½
Bristol Eve P	370	+	12	**Falls**			
Forth Ports	268	+	10	ACT	153	−	8
Grampian TV	189	+	8	Abbey	105	−	10
Herring Baker	75	+	7	Alexon	89	−	4
Hi-Tec Sports	47	+	7	Ingham	119	−	7
Jarvis Porter	264	+	11	Peek	68	−	4
Kleeneze	181	+	15	UK Land	30	−	4
MTM	11½	+	3½				
Perpetual	453	+	52				
Protcos Int	360	+	12				

■ Chairman says dividend will be held at DM13 by taking from reserves

Daimler-Benz sales decline by 20%

By David Waller in Stuttgart

SALES at Daimler-Benz, Germany's biggest industrial company, fell by nearly 20 per cent in the first four months of the year to DM26bn ($16bn) the group's chief executive told shareholders at yesterday's annual general meeting.

Earlier this month Daimler reported first-quarter net profits of just DM20m, down from DM430m in the same period last year. For the first three months sales were down 19 per cent to DM18.4bn.

Yesterday's figure shows that business conditions for the group have deteriorated further during May but Mr Edzard Reuter, chairman, voiced a degree of confidence about the outcome for the full year.

Without repeating the forecast that net profits would reach DM1bn – after DM1.45bn last year – Mr Reuter said the group would strive to maintain a dividend payout of DM13 for 1993 as well as 1992, even if it meant dipping into reserves in order to be able to do so.

The main source of the downturn in sales in the first third of the year were developments at the the Mercedes-Benz luxury car subsidiary.

But although sales in the group's most important subsidiary fell 24 per cent in the first three months, Mr Reuter predicted that for the year as whole they would be at around the same level as 1992 when they reached DM66.5bn.

The impetus to sales was likely to come from the introduction of the C-class Mercedes scheduled for June this year.

This will replace the 10-year-old 190 series, the company's smaller executive car, and Mr Reuter predicted that it would be an "extraordinary success".

Commenting on the circumstances leading up to Daimler's decision to abandon Mercedes Holding (MAH), the holding company set up in 1975 to prevent the Shah of Iran from taking a large stake in the group, Mr Reuter acknowledged that Daimler had been rushed into making an announcement of its plans on April 2.

The original plan had been to break the news at the annual meeting.

He said that disbanding the holding structure would show that Daimler no longer "needs a shield against hostile takeover".

He said that the method and timing of making the announcement, at 4pm on a Friday afternoon without the shares in either MAH or Daimler being suspended, was the "best and most professional way" of making the news public.

The MAH share price rose sharply in the days ahead of the announcement. These price movements are currently the subject of an investigation by the Insider Dealing Commission of the Frankfurt Stock Exchange.

Mr Franz Steinkühler, who resigned as head of the powerful IG Metall union on Tuesday this week after the disclosure of his dealings in MAH shares ahead of the announcement, came in for heavy criticism at the meeting yesterday.

Shareholders condemn Steinkühler, Page 2


Edzard Reuter: voiced confidence

Worldsource project seeks European partners

AT&T targets telecom needs of multinationals

THE RACE is on to become "global outsourcer" for the telecommunications needs of the world's multinationals, write Andrew Adonis and Martin Dickson.

American Telephone & Telegraph's launch this week of "Worldsource", a set of customised international business telecoms services, marks a determined bid for this pitch by the largest US carrier. British Telecom, the privatised UK operator, has similar ambitions, and as liberalisation forces the other large European telecoms carriers to look outwards, they too could enter the field.

Tha goal is simple: to become the "one-stop shop" for the 2,500-odd large companies with globally dispersed operations – managing and integrating their international networks, offering them the latest in data and voice facilities, and providing a single point of contact however dispersed the company's outlets.

Worldsource aims to do virtually that by creating a web of partnerships with other operators. This week it announced a link-up with Kokusai Denshin Denwa of Japan and Singapore Telecom, and indicated that Unitel of Canada, Telstra of Australia and Korea Telecom intend to join soon. It plans to take Worldsource into Europe next year.

With analysts predicting thet turnover in international telecoms traffic will more than double by the year 2000, the financial stakes are immense. It is significant that AT&T launched Worldsource in the Asia-Pacific: the region has the world's fastest growing telecoms sector.

"This is tha way we see the world going – forming alliances to meet the needs of global customera," said a spokesman for MCI Communications, the second largest US long-distance carrier.

For multinational customers, Worldsource is evolution not revolution. International telecoms companies already have partnership deals inter-connecting private networks and offering other services. AT&T's Global Software Defined Network (GSDN) links it with 21 international carriers in such an arrangement; BT's counterpart, Featurenet, ambraces 14 carriers (including AT&T) and has more than 100 customers.

Essentially, Worldsource enhances the existing GSDN service, by adding features like single billing, full integration of international data and voice networks, and improved dialling, circuit availability and network management standards. Says one City telecoms analyst: "It's innovative – hut international telecoms is increasingly a commodity business based on price, and of itself Worldsource does little to make it cheaper."

Extending the service to Europe is critical to Worldsource. AT&T is hudgeting to spend $350m over the next five years providing facilities and upgrading eqnipment in Europe. Mr John Foster, director of AT&T's communications services in Europe, said he was keen to talk to "almost any" European telecom operator about a link-up, but no deals are imminent.

Since Worldsource does not give AT&T exclusive rights over its partners, most of Europe's state telecoms operators appear to have little to lose from participation. Unless, that is, they aim to be global outsourcers themselves and want to give no succour to AT&T. AT&T's move challenges companies such as Deutsche Telekom and Telecom France to clarify their international strategies and link with partners. Says Mr Robert Morris, telecoms analyst at investment house Goldman Sachs in San Francisco: "AT&T has clearly signalled to other carriers throughout the world that it would prefer not to go it alone and would prefer to work with them."

BT, however, has already signalled its determination to go-it-alone. Nearly two years ago BT launched its global outsourcing venture Syncordia, which now boasts nine customers and an annual revenue of about $200m (£130m). Furthermore BT and AT&T are currently locked in a battle with US and UK regulatory authorities over access to each other's public fixed network.

So AT&T could have difficulties in the UK. But it is not restricted to BT: Mercury is a potential partner, while newly-licensed public telecom operators Ionica and National Grid's Energis are huilding networks of their own.

As for BT, Worldsource could encourage the UK operator to link up with MCI. There have been rumours for months that this might happen, hut the drawback for BT is that it would put itself squarely in AT&T's sights, since MCI is AT&T's most important rival in the US.

AT&T, moreover, has shown itself ruthless in hitting back at global competition from MCI. MCI's only hig alliance so far, announced last year, was with Stentor, a Canadian long-distance consortium, under which MCI technology is being used to create a fully integrated international network between Canada and the US. AT&T immediately retaliated by taking a minority stake in Unitel, Stentor's upstart Canadian rival, and sued MCI for patent infringement.

Just how strong demand will be for Worldsource is not clear. At the launch, AT&T put together an impressive group of companies who said they needed the service. If Unisys, Honeywell, Motorola and United Parcel Service meant it, the world could truly be AT&T's oyster.

Traffic base of top 20 international carriers, 1991

Carrier	Outgoing MITT* (m)	% 1991 growth	Country
AT&T	6,557	7.8	US
Deutsche Telekom	3,557	13.1	Germany
France Telecom	2,295	7.9	France
BT	2,213	1.9	UK
Cable and Wireless	1,660	28.6	UK
MCI	1,600	35.1	US
Swiss PTT	1,429	5.4	Switzerland
Stentor	1,425	6.0	Canada
PTT Netherlands	1,018	12.5	Netherlands
ASST	980	17.1	Italy
KDD	850	11.3	Japan
Belgacom	823	12.6	Belgium
US Sprint	723	25.3	US
Telefonica	719	17.7	Spain
Swedish Telecom	659	7.2	Sweden
Teleglobe	647	14.5	Canada
Austrian PTT	642	14.8	Austria
AOTC	610	8.0	Australia
China PTT	594	29.1	China
Telmex	500	18.8	Mexico

* MITT: minute of international telecommunications traffic
Source: Lehman Brothers

Volkswagen wins first round in court against GM

By Christopher Parkes in Frankfurt

GENERAL Motors, the world's leading volume carmaker, yesterday suffered its first important loss in the legal battle against Germany's Volkswagen.

An initial hid to prevent seven former employees of GM and Adam Opel, the US group's German snbsidiary, from working for Volkswagen for 12 months was rejected hy a Frankfurt court.

Meanwhile, a public prosecutor examining GM's complaints of industrial esplonage against a top VW executive, said preliminary investigations conld last at least six months.

The US concern had been asked to provide further documents to back its most serious claim against VW: that its former global buying chief, Mr José Ignacio Lopez de Arriortua and others had taken secret docnments and industrial information lo VW in March.

An Opel spokesman said later that the case against the seven more junior VW employees wonld continne. Yesterday's rejection at an oral hearing of Opel's application for an urgent temporary injunction would be followed by a full hearing, he added. Timing would depend on the court's timetable.

"We had expected this verdict," Dr Lopez said in a statement. "We came to Volkswagen of our own free will. Every person has the right to choose where he works."

The decision was the first significant setback for Opel, which recently won an injunction barring VW from continuing "systematically" to poach its personnel. According to Opel, Mr Lopez and his colleagues had approached aronnd 40 senior huying and prodnction staff.

According to a VW official, the company had chosen not to challenge this injunction to "avoid further legal conflict and because the charge was not valid either in the past or now".

The seven involved in yesterday's case, which did not involve Mr Lopez, inclnde former top members of Mr Lopez's hnying team at GM, who left the US shortly after their boss. Most notable is Mr José Gntiérrez, GM's former machinery and equipment procurement chief.

The delays cansed hy the lengthy investigation into the charges against Mr Lopez and the rejection of the call for the injunction will bring widespread relief to VW.

They will allow VW's new employees to press ahead with the urgent, radical overhaul of the purchasing and manufacturing processes which are central to the gronp's recovery plan.

Swissair ordered to rethink alliance

By Ian Rodger in Zurich and Paul Betts in London

THE SWISS government has for the first time indicated unease about Swissair joining an alliance with three other European airlines. It has ordered the company to put forward alternative plans for its future thet would guarantee its independence.

The decision throws fresh uncertainty over the ambitious plans of Swissair, Scandinavian Airlines System (SAS), KLM Royal Dutch Airlines and Austrian Airlines to merge their operations into a joint company.

Their merger is intended to form a "fourth force" in the European airline industry to compete against the hig three European airlines: British Airways, Lufthansa of Germany and Air France.

"Swissair is not any old company but a trademark for our country," Mr Achille Casanova, the government's spokesman, said after a cabinet meeting.

It is also of significant strategic importance. Many of the airline's pilots fly part-time for the Swiss Air Force.

A Swiss Sunday newspaper claimed last Sunday that the alliance would result in the suppression of the Swissair name, the loss of 10,000 Swissair jobs and the movement of important decision making to Amsterdam.

Swissair replied that its name would be preserved in the medium term as would Zurich as a decision centre. The joh loss figure was "wildly exaggerated".

Mr Casanova said Swissair's future had a "political dimension" since the airline was 20 per cent owned hy Swiss public authorities, including the federal government with 7 per cent.

Similar outhreaks of opposition to the four-carrier alliance have already broken out in Austria, where Lufthansa is understood to be discussing with Austrian Airlines the possibility of an alternative commercial partnership. If these talks are successful and Austrian Airlines opts for an alliance with the German carrier, this would represent a further blow for the four-airline alliance.

Swissair said it was convinced that the proposed alliance, which has been called the Alcazar project, was right for securing its economic future.

The partners in the venture are seeking to set up a joint operating company by the beginning of next year in response to the increasing globalisation of the airline industry.

Hoechst in viscose merger

By Paul Abrahams in London

HOECHST, the German chemicals giant, and Courtaulds, the UK group, yesterday announced they had reached an agreement to merge their European viscose and acrylic fibres operations.

The joint venture, to be majority owned by Courtaulds, would have had a turnover last year of £369m ($568m), of which tha UK company's share would have been £238m.

Mr Sipko Huismans, chief executive, declined to say what proportion will be owned by the British company, but said it was substantially more than 50 per cent, and that in effect the deal was a takeover. The business would be consolidated in Courtaulds' accounts, he added.

The merger is subject to the agreement of competition authorities. The joint venture would be Europe's largest manufacturer of viscose, which is used for cotton substitutes and disposable bedding. The operations would have a capacity of about 135,000 tonnes a year, larger than those of Lanzing of Austria, which has capacity of about 130,000 tonnes a year.

In acrylic fibres – used as a wool substitute – the merged business would be Europe's number two, with capacity of between 195,000 and 215,000 tonnes a year.

European capacity is about 830,000 tonnes a year, according to Mr Simon Garmston, senior partner at PCI-Fibres and Raw Materials, tha specialist consultants.

The deal, which is scheduled to be completed this autumn, gives Courtaulds greater access to the European textiles sector, said Mr Huismans. The company has recently started producing a new textile product in the US called Tencel, but its strength in European viscose is manufacturing non-textile unwoven products.

Hoechst has been hit hy the decline of the European textiles industry. "Prices are horrible," said Mr Jean-Louis Juvet, director general of the Brussels-based International Committee of Rayon and Synthetic Filament. "All but Courtaulds are losing money," he said.

The European acrylic fibre market has been more stable, but has been affected by a slowdown in demand from China, the world's largest importer. Hoechst does not have sufficient volumes to make money in present circumstances, said Mr Juvet.

Lex, Page 22;
Courtaulds results, Page 28

Food division puts SME ahead slightly for year

By Haig Simonian in Milan

SME, the Italian state-owned foods, retailing and catering group, which is to be sold into the private sector, reports a slight increase in group net profits after minority interests, to L127.2bn ($86.1m) last year from L125.6bn in 1991.

Group sales totalled L5,850bn against L5,814bn. However, adjusted for disposals during the year, turnover rose by 8.2 per cent.

The sharpest growth came in food production – which will be the first division to be sold – with a 11.9 per cent rise in sales to L2,104bn. Adjusted for takeovers and disposals, the increase was 6.5 per cent.

Turnover on the catering side, concentrated in the Autogrill subsidiary, climbed 9.7 per cent to L1,115bn, while food retailing rose 4.8 per cent to L2,631bn.

SME's earnings rose much more sharply at pre-tax level, with a leap to L230.2bn from L142.2bn in 1991. The company said net earnings had been burdened by much higher tax payments.

Parent company net profits jumped by 27 per cent to L93.2bn from L73.5bn, largely due to extraordinary gains on the sale of subsidiaries. The dividend remains unchanged at L110 a share.

The names of the successful candidates for the purchase of SME's Italgel frozen foods and Cirio, Bertolli, De Rica tinned foods divisions are expected to be announced by next month.

While multinationals, including Nestlé, are believed to have expressed the strongest interest in Italgel, industry observers suggest CBD is more likely to be bought by an Italian purchaser.

IRI, the Italian state holding company which controls SME, yesterday announced an expansion of its three-man board of directors to six members. Earlier this month, Mr Romano Prodi, an academic and former chairman of IRI, was reappointed chairman after the arrest and resignation of Mr Franco Nobili.

The move marks a further step in the transformation of IRI to a market-driven group, which began with last year's change from state entity into joint stock company and a sharp reduction in the size of its board, then principally composed of politicians.

Queens Moat relist delayed

By Angus Foster and Christopher Price in London

SHAREHOLDERS in Queens Moat Houses, the suspended UK hotel group, may have to wait until the autumn before the company is relisted.

The relisting depends on a refinancing, expected to be formalised in September. It will also require asset disposals to reduce the company's mounting debts, and a new set of accouots. "It's a pretty standard refinancing, but it's still big and complex," a banker said.

Queens Moat's 64 creditor banks, which are led by Barclays and owed about £1bn, ($1.54bn) are due to meet today and will be asked to agree to a further three-month standstill on interest and principal repayments.

They will discuss a report compiled by Grant Thornton, the accountants, which is expected to conclude that Queens Moat has positive net assets and a viable future.

Mr Andrew Coppel, the former finance director of Ratners appointed as a consultant to Queens Moat in April, is expected to be confirmed as chief executive. Morgan Grenfell, which worked with Mr Coppel at Ratners and Sale Tilney, has replaced Charterhouse as Queens Moat's financial adviser.

The company announced yesterday that Mr Martin Marcus and Mr David Hersey, formerly deputy chairman and finance director respectively, had resigned from the company. They were suspended once Queens Moat's problems became apparent at the beginning of April.

The expected delay for the refinancing and relisting has added to worries among shareholders and some creditors.

NW Water in scrip dividend offer

By Angus Foster in London

NORTH WEST Water yesterday began the privatised water companies' reporting season by announcing a 7 per cent increase in profits.

Pre-tax profits increased from £230.1m to £247.1m ($380.5m) in the year to March 31, mainly because of price rises but helped by a larger contribution from unregulated businesses like process equipment.

North West also announced it was offering shareholders an enhanced scrip dividend. Like the other water companies, North West is unlikely to have to pay any mainstream corporation tax for several years because of high capital allowances.

The enhanced scrip scheme will help eliminate unrelieved advance corporation tax. Money saved will be invested in North West's international business. Ofwat, the water regulator, was informed in advance about North West's plan and expressed no concern, the company said.

Analysts said other water companies are now expected to launch enhanced scrip schemes over the next few weeks.

Turnover increased 11.3 per cent to £877.9m after average annual price rises of 9 per cent. At the interim stage, profits were up 5.7 per cent at £130.7m on £421.7m sales.

North West said it continued to cut costs and lifted operating profits 17 per cent to £288.2m. There were provisions of £36m for future redondancies.

Net borrowings increased from £296.4m to £534.6m.

Earnings per share increased 7.6 per cent to 62.3p. The company recommended a final dividend of 14.27p to make a total of 21.4p, an 8.8 per cent increase. The enhanced scrip alternative is equivalent to a dividend of 21.405p. Swiss Bank Corporation has agreed to buy any new shares at a value equivalent to 20.9769p, or 98 per cent of the enhanced dividend.

Lex, Page 22

UBS plays down takeover hopes

By Peter Montagnon and Ian Rodger in Zurich

UNION Bank of Switzerland, the country's largest bank, would like to expand its investment banking presence in the US, but faces extraordinary regulatory obstacles there.

Any important acquisition of a US company or business in investment banking would almost certainly oblige the bank to close its substantial and successful commercial US bank branch, Mr Ulrich Grete, UBS executive vice-president, said.

Thus, stock market rumours in recent weeks of a takeover by UBS of Lehman Brothers, the investment banking subsidiary of troubled American Express, seem unfounded.

UBS never comments on rumours, but Mr Grete said the bank was not working on any acquisition projects at the moment. He said the bank probably would not make any large acquisition within the next two years.

The comments come in the wake of the bank's controversial resolution at last month's annual meeting to raise authorised equity capital by about 8 per cent for possible use in financing takeovers.

Under a new Swiss law, companies can use such reserve capital at any time for a period of two years without seeking further shareholder approval for rights issues or for "important purposes" without offering shareholders the prior right to buy the shares. At the end of the two years, it must seek a fresh mandate from shareholders at the AGM.

UBS has been criticised in Swiss financial circles for stretching the interpretation of the law and seeking to undermine shareholder rights. It was generally understood that such shares would be used in lieu of cash in cases of takeovers, but UBS has given itself the right to make market placements as well to finance takeovers.

Mr Grete said the bank's main goal was to improve its return on equity – 7.4 per cent last year – to 10 per cent by 1995, so it would try hard to avoid issuing new shares. However, the US was "the one area" where the bank might make "an extraordinary step" to improve its position in asset management and investment banking.

The problem was that any such acquisition could undermine its ability to continue carrying on both investment and commercial banking in the US. At the moment, it benefitted from "grandfather" status, having both types of business prior to the passage of the International Banking Act. But this status would be in jeopardy if it made a significant acquisition.

"The probability that in two years time we will have to renew the authorised capital without having used it is very high," Mr Grete said.

Cost reductions help lift SCA by 72%

By Christopher Brown-Humes in Stockholm

SCA, Sweden's second-largest pulp and paper group, said the weaker krona, cost reductions, and increased volumes helped push up profits by 72 per cent, to SKr271m ($37.2m), in the first quarter of 1993.

Mr Sverker Martin-Löf, president, said the group's most important markets, particularly Germany, were still weak. Prices remained under pressure for most products, excluding lightweight coated paper.

However, the company is sticking to its earlier forecast of full-year profits in the range of SKr1bn to SKr1.5bn.

Sales rose 8 per cent to SKr8.58bn from SKr7.98bn, reflecting beneficial currency movements and volume growth. Operating profit eased to SKr523m from SKr531m following last year's disposal of energy operations. This, however, was more than offset by a drop in financial costs, from SKr373m to SKr252m.

The group said all but one of its four main business units improved earnings. Graphic paper operations made a profit for the first time in five quarters, posting a SKr37m operating surplus after last year's SKr74m loss. The unit benefited from cost reductions and the stronger dollar, which reduced exports of newsprint from North America to Europe.

Sverker Martin-Löf: 'big markets still weak'

The company's hygiene division, Mölnlycke, had another strong quarter, with profits rising 82 per cent to SKr311m.

The packaging division saw operating profit rise to SKr153m from SKr114m.

Philips nears deal on unit sale

By Ronald van de Krol in Amsterdam

PHILIPS, the Dutch electronics group, is negotiating to sell its German-based telecommunications cable business to NKF Holding, a Dutch unit of Nokia of Finland.

The move follows the failure earlier this year of talks between Philips and Siemens, the German electronics company, on combining their cable activities into a joint venture.

Philips declined to reveal its asking price. Its cable manufacturing plants in Cologne and Nuremberg employ 1,100 people and generate annual sales of DM350m ($214.7m). Philips said its plant in Cologne would phase out the production of copper cable before being transferred to NKF.

The acquisition will mean a big increase in size for NKF, which has annual turnover of Fl 443m ($246m).

NKF is a former Philips subsidiary which left the group through a management buy-out in 1986. Nokia later built up a stake of nearly 60 per cent in the company.

● Fokker, the Dutch aerospace group, is exploring a possible partnership in space technology with Matra Marconi of France, AP-DJ reports.

Bank Austria defies audit authority

By Ian Rodger in Zurich

BANK Austria, the country's largest bank, is expected to continue resisting demands that it submit to an audit by the state auditing office (Rechnungshof).

Yesterday, Mr Helmut Zilk, the mayor of Vienna, ordered the bank to comply with the Rechnungshof's demand. A foundation controlled by the city has a majority stake in the bank. The national government holds another 25 per cent.

The Rechnungshof's auditors attempted to enter the bank earlier this month but were blocked.

Mr Rene Alfons Haiden, chief executive, said then that Bank Austria was a private company and therefore not subject to normal state audits.

Mr Siegfried Sellitsch, chairman of the bank's supervisory board, said foreign shareholders, including Italy's Cariplo and Germany's Hamburg-Mannheimer-Versicherung, were particularly upset about the prospect of public control.

The bank's supervisory board and board of directors are to discuss the matter on June 17. They are likely to appeal to the minister of finance and, if that fails, to Austria's supreme court for administrative cases.

Mr Haiden has indicated that he would consider taking the case to the European Court.

Loss at Dutch packaging group

By Ronald van de Krol

KNP BT, the newly-formed Dutch paper, packaging and printing equipment group, has announced a "modest" loss for the first quarter of 1993. It said the downward trend continued into April and May.

The company also announced a reshuffling of its role as a sales agent for Germany's two biggest manufacturers of printing equipment, MAN Roland and Heidelberg. This will allow it to meet conditions laid down by the European Commission when it approved the KNP BT merger earlier this month.

Mr Robert van Oordt, chairman, cautioned that it would not be easy for KNP BT to post a net operating profit for 1993 as a whole. He said the company would be taking "substantial" extraordinary charges this year to pay for an accelerated programme of reorganisation and integration. It would also be pursuing cost cuts worth Fl 150m ($82m).

Another goal is to make unspecified divestments of non-core activities.

As part of a new geographic split, KNP BT is to create two legally-separate organisations to represent Heidelberg in Europe and Mexico and MAN Roland in eastern Asia, Australia and New Zealand. To do this, it will be divesting four subsidiaries with combined turnover of Fl 400mto Fl 500m.

Depressed sales and strong yen plague Sharp

By Michiyo Nakamoto in Tokyo

SHARP, the Japanese coosumer electronics and office equipment manufacturer, yesterday blamed a 37 per cent drop in parent pre-tax profits to Y44.5bn ($405m) for the year to March on the downturn in the Japanese economy and tbe appreciation of the yen.

Sales fell 4 per cent to Y1,153bn as Japanese corporate spending and consumption was depressed and overseas markets remained weak, the company said.

Group pre-tax profits, meanwhile, plunged by 30 per cent to Y51.6bn and parent net profits fell 31 per cent to Y25bn.

Audio and communication equipment in particular recorded a big fall in demand, with sales falling 16 per cent. Television and video equipment sales slid 10 per cent.

Sharp was also hit by weakened demand for home electrical appliances such as air-conditioners, which were affected by the cool summer in Japan last year. The division suffered a 8 per cent fall in sales.

The streogth of the yen affected Sbarp, whicb sells about 50 per cent of its products overseas.

On a more positive note, the group benefited from its strength in liquid crystal displays with strong demand for its LCD panels. The company is seeking to cut costs by restructuring its operations to reduce dependence on consumer electronics.

It expects tbese moves to belp it raise non-consolidated sales in the current year by 2 per cent to Y1,180bn and net profits by 4 per cent to Y26bn.

Sharp will increase its capital spending this year by 12 per cent to Y90bn and its R&D expenditure by 6 per cent to Y110bn.

● KDD, Japan's international telecommunications operator, reported a 1.8 per cent fall in sales to Y240bn in the year to March and a 12 per cent plunge on operating profits to Y17.1bn, both hurt by the downturn in the country's economy.

However, the group was able to raise pre-tax profits by 2 per cent to Y26.7bn and net profits by 11 per cent to Y15.7bn.

Japan's machine makers buoyed by shipbuilding

By Robert Thomson in Tokyo

RESULTS AT Mitsubishi Heavy Industries and Kawasaki Heavy Industries, the Japanese machinery makers, were buoyed last year by an increase in sales by their shipbuilding divisions, which had been a burden for both companies over the past decade.

Most Japanese machinery makers are reporting sharp falls in sales, but MHI's sales expanded by 0.4 per cent to a record Y2,493bn ($22.8bn), while pre-tax profit was 9.5 per cent lower at Y140.74bn. At KHI, sales were 2.3 per cent higher at Y952.9bn and profit rose 10.7 per cent to Y22.6bn.

Hitachi Zosen, a smaller company more reliant on shipbuilding, which accounts for 54 per cent of its sales, reported a 41.3 per cent surge in pre-tax profit to Y17.4bn on sales up 14.6 per cent to Y358.5bn.

Japan's heavy industrial companies have reduced the capacity of their shipbuilding operations and diversified into new business, but strong demand in 1990 and 1991 has left them with full order books and reduced competition.

Orders slowed last year, but most still have a backlog. Mitsubishi's shipbuilding and steel structures division sales rose 25.3 per cent; machinery sales were 4.3 per cent lower, and aircraft and special vehicles were down 10.5 per cent.

For the current year, MHI expects sales and profits to be about the same and made no specific forecasts. However, orders for new vessels were down 18.6 per cent last year, though power system orders gained 30 per cent.

Kawasaki's ship sales were 43 per cent higher, though new orders slumped 60 per cent. Rolling stock sales were up 15.6 per cent while sales of aerospace equipment were just 0.3 per cent higher.

Both companies fear that the yen will put their export divisions under increased pressure in coming months, but Kawasaki still expects sales to grow to Y980bn, while pre-tax profit is forecast to slip to Y18bn.

Time to weed garden of electronic delight

Michiyo Nakamoto reports on Toshiba's response to a three-year profit slide

MR Tsuyoshi Kawanishi, senior executive vice-presideot of Toshiba, becomes animated as he outlines the challenges facing his company and all of Japan's electronics industry.

"In the 21st century, the electronics industry will change," he says. "Toshiba will have to change, too, if it is to maintain its leading edge in the new eovironment."

From his office on the 38th floor of Toshiba's headquarters building in Tokyo, Mr Kawanishi enjoys a panoramic view of the city harbour under developmeot and the densely-populated suburban landscape that stretcbes towards Mt Fuji – reminders of Japan's hectic growth over the past decade.

But, just as the frenzied development that spread through Tokyo in the late 1980s bas ground to a virtual halt, Toshiba has bad to face a slump in its markets in the past few years.

The second-largest of Japan's comprehensive electric machinery manufacturers, with products ranging from nuclear power generators to laptop computers, Toshiba has been hit by the downturn in corporate and consumer spending that has afflicted many of Japan's key industries.

The slowdown in demand is not expected to be reversed soon. Nor is the recovery, when it comes, likely to bring back the days when demand for electronic goods seemed insatiable.

To cope, the company, which employs 168,000 worldwide, has undertaken a wide-ranging restructuring of its operations. The need is pressing; when Toshiba reports its results today, it is likely to unveil a plunge in consolidated pre-tax profits for the third year running to Y85bo ($773m), with net profits falling to Y20bn, or less than one-sixth of their level three years ago.

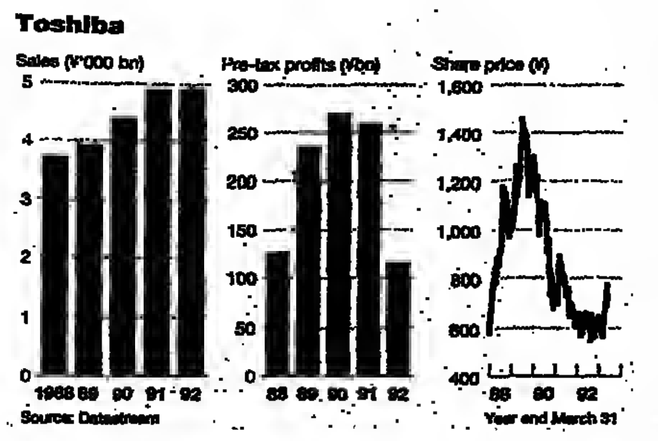
After the three-year slide in profits, Toshiba and other Japanese electronics companies are concerned their business environment is undergoing fundamental changes requiring a comprehensive review of how they do business.

Mr Kawanishi sees Japanese electronics companies being forced to abandon aspects of their traditional management practices, such as emphasising market share over profits.

There is little likelihood, for instance, that they will be able to continue to rely on growing markets to increase profits. Instead, they will have to place a greater emphasis on return on investment.

The cost of funding has risen since it has become difficult to raise capital on the Japanese equity market. This means companies have to be much more selective in their investments than a *few* years ago wheo they competed to invest in new equipment and businesses.

The recovery, when it comes, is unlikely to bring back the days when demand for electronic goods seemed insatiable.



Source: Datastream

Additiooally, the effects of international trade friction, the need to bring new products to market speedily and spiralling costs mean that companies must set up transnational alliances to improve co-ordination between their core skills and realise their potential.

"To take advantage of those changes we need to restructure our organisation," Mr Kawanishi says.

Toshiba is putting together a five-year business plan. This follows a review of its businesses aimed at weeding out those not making returns and at determining which areas the company will remain committed to.

"There are businesses that never made a profit and those that once made profits but oo longer do," Mr Kawanishi admits. One example is cathode ray tubes, which have not been profitable for Toshiba but have beeo manufactured because they contribute to its television business.

Although retrenchment is anathema to Japanese business, Toshiba has begun offloading some of its less profitable businesses as opportunities arise. Last month, it revealed it had sold its 69 per cent stake in Onkyo, a specialised audio manufacturer, to a medium-sized auto-parts maker. In March, it reduced its stake in Toshiba Steel Tube from 50 to 25 per cent when its subsidiary was merged with a wbolly-owned subsidiary of Nippon Steel.

Meanwhile, it has coocentrated investment io strategic product areas such as flash memories, in which it has a tie-up with IBM.

A semiconductor memory chip plant in central Japan, which started producing this month, will give Toshiba the capacity to double its 4-megabit D-Ram output. As Mr Barry Dargan, analyst at S G Warburg Securities, points out, it makes Toshiba the world's largest producer of memories just as the memory chip market emerges from a prolonged slump and prices are rising strongly. Mr Dargan says its atrength in flasb memory chips, which store informatioo eveo wbeo the power is turned off and do so much faster than disk drives, will pay off as the market for flash memories grows.

But prospects are still uncertain in many of Toshiba's business areas as demand remains weak, particularly in Japan, while the yen's strength continues to cast a cloud over its overseas income.

Toshiba also has a high level of net debt, at Y731bn, or almost 62 per cent of equity. Yet it is still committed to maintaining its costly lifetime employment system and will employ about as many graduates next year as it always has.

As it pulls itself out of the slnmp and prepares for recovery, much depends on bow far Toshiba can change from tbe old ways to concentrate instead on businesses which will earn the biggest returns.

Nippon Oil shares rise despite fall in earnings

By Wayne Aponte in Tokyo

NIPPON Oil, Japan's largest petroleum distributor, announced a 1.6 per cent fall in pre-tax profits to Y43.3bo ($394m) for the year to March, and blamed the yen's appreciatioo for the price cuts on its energy products.

Net profits dropped 6.9 per ceot to Y30.6bo oo sales of Y1,995.9bn, down 1.6 per cent. The company's shares, however, rose Y14 on the news to end at Y853 on the Tokyo stock exchange yesterday.

Earnings per share fell to Y25.35 from Y31.05 the year before.

Nippon Oil estimates pre-tax profits will fall by 7.6 per cent to Y40bo in the current year, making a third consecutive annual decline. It expects overall sales to inch up 0.2 per cent to Y2,000bn.

In response to Japan's economic environment, the company plans bond redemptions by taking about Y100bn from its reserve funds, a move that contributes to the lower profit forecasts.

● Mitsubishi Oil, the Tokyo-based refiner and distributor, announced its pre-tax profits rose 3.8 per cent to Y34.3bn in the year to March.

Net profits dropped 21.6 per cent to Y10.6bn, while total sales gained 6.7 per cent to Y1,111bn. The company estimates pre-tax profits will grow by 2.6 per cent to Y25bn this year.

Fanuc blames economy for 44% slide in pre-tax profit

By Robert Thomson

FANUC, the Japanese machine tool maker, blamed a 44 per cent fall in pre-tax profit to Y29.2bn in the year to March on the curtailing of capital spending by manufacturers and the yen's appreciation.

Sales during the year fell 24.4 per cent to Y117.7bn, with those of factory automation equipment 27.3 per cent lower and robot sales 21.5 per cent down. Orders in the two areas were equally weak, though the company is hoping for a 1.9 per cent rise in sales this year.

Fanuc, like other Japanese machinery companies, suffered from continned trimming of corporate capital spending and by depreciation charges on their own expansion of production during the late 1980s. Most Japanese manufacturers now have under-utilised production lines and little incentive to buy the sort of equipment in which Fanuc specialises.

For the current year, Fanuc forecasts a further fall of 6 per cent in pre-tax profit to Y27.6bn, though the appreciation of the yen in recent weeks is likely to put further pressure on its profits in coming months.

● Hitachi Constrnction Machinery's pre-tax profits slipped 39.6 per cent to Y2.7bn, but the company expects an increase in infrastructure spending by the government to push domestic sales higher and create a pre-tax profit of Y4bn.

Tandy to sell some PC manufacturing operations to AST

By Nikki Tait in New York

TANDY, one of largest US consumer electronics retailers and manufacturers, yesterday abandoned plans to split itself into two independently-quoted companies – one representing its retail operations and the other its manufacturing arm.

Instead, the Texas-based group said it would sell part of its personal computer manufacturing operations to AST Research, a California-based manufacturer of IBM-compatible desktop and notebook computers, and then divest much of the remaining manufacturing business.

"Our primary strategic thrust is retailing, as previously announced," said Mr John Roach, Tandy's chairman.

AST said the purchase price for the PC assets was estimated to be no more than $175m, which would be met either in cash and three-year promissory notes or entirely in cash.

The operations it plans to buy include the GRiD brand of products, Tandy-GRiD Europe, and certain computer manufacturing plants in Texas and Scotland.

GRiD Systems, which Tandy acquired in 1987, is believed to have lost money recently and has been retrenching after an ambitious expansion programme. Its president recently resigned.

Tandy will take a charge of around $70m in the second quarter to end-June as a result of this divestment. The company announced in January it planned to divide itself into two separately-quoted companies – with the manufacturing arm being known as TE Electronics.

Shareholders would have received shares in TE Electronics as a tax-free "dividend".

Yesterday, Mr Roach said Tandy had decided the sale route would strengthen its balance sheet and increase future income potential. The company would retain "limited strategic manufacturing units", he said, although these were not detailed.

Mr Roach has being putting a good deal of emphasis on Tandy's efforts to revive its big retail operation. On the one hand, it has developed a new "superstore" concept called "The Incredible Universe", and opened the first two outlets – both about 150,000 sq. ft. – last year. But the Texas company also plans to open a series of "small stores", under the "Radio Shack Express" fascia.

Police to investigate share dealings in YSL

By Alice Rawsthorn in Paris

THE Paris stock market authorities have called in police to investigate share dealings in Yves Saint-Laurent, the French fashion house, prior to the announcement of a sharp fall in six-month profits last autumn.

Dealings in YSL, which has been rocked by controversy since its FFr3.6bn ($650m) takeover earlier this year by the Elf-Sanofi pharmaceuticals group, have for some months been under investigation by the Commission des Opérations de Bourse (COB), the stock market watchdog.

The COB yesterday announced that "a significant number of YSL shares" were bought in off-market dealings by foreign investors in the weeks before the publication of the company's interim results on September 21.

The results revealed an unexpectedly steep fall in YSL's net profits from FFr2.6bn in the first half of 1991 to FFr41m in the same period last year.

French market sources suggest that 2 per cent of YSL's shares changed hands on September 17 and September 18.

Compaq Computer optimistic on outlook

By Jeremy Bennalleck-Hart in New York

COMPAQ Computer expects a strong second-quarter performance, the company said yesterday.

Mr Andreas Barth, senior vice-president, Europe, said his forecast was based on the first signs of economic recovery in Europe and the surge in demand generated by the introduction of the 486SL-based Compaq Contura and Compaq LTE Lite notebook ranges in March and May.

First-quarter net income, reported last month, jumped to $102m, or $1.23 a share, from $45m, or 53 cents, on revenues 106 per cent higher at $1.6bn.

The company confirmed in a statement that it took the lead in the European portable PC market for the first time in the quarter. The group held a 22 per cent market share in value terms and a 17.5 per cent market share in unit terms, according to Dataquest, a market research business.

First-quarter portable shipments grew by 89 per cent over the same period last year, more than four times faster than the market, which increased by 21 per cent, the company said.

Mr Barth said the company would continue to target the European market with product introductions and aggressive pricing.

In North America, Compaq's portables market share rose by 65 per cent, reaching 17.8 per cent for the first quarter, against 11.4 per cent at the end of last year.

The company's success in notebooks contrasts with that of rival Dell Computer, which on Tuesday reported a steep fall in first-quarter income as a result of delayed and cancelled notebook projects.

● Novell, the US computer networking company,

released second-quarter figures showing net income up 31 per cent to $80m, or 26 cents a share, on revenue 25 per cent ahead at $281m.

Amax deal enriches Cyprus Minerals' core

Laurie Morse examines prospects of a new power in the coal and copper industries

MR Milton Ward, chairman of Cyprus Minerals, has enhanced his reputation as something of a corporate fox. On Tuesday, he snapped up the assets of undervalued Amax, the US mining group, at a point when analysts believe copper and aluminium markets could be close to the bottom.

Mr Ward and his Amax counterpart, Mr Allen Born, agreed to a merger as Amax struggled with $2.54bn in long-term debt, declining revenues from sagging metals prices, and lack of sufficient capital to expand its core business.

Both men are respected veterans of the mining business, and their alliance, analysts say, show they are taking a realistic view of world competition and market conditions.

"We are going to see more of these strategic alliances within the mining industry, as companies cope with the globalisation of the business and the effect the collapse of the CIS has had on world commodity prices," says Mr Vahid Fathi, analyst with Kemper Securities in Chicago. "Mining is in a very dynamic situation right now."

Mr Ward, who moved to Cyprus a year ago after nearly two decades at the US natural resource company Freeport McMoRan, has earned a reputation as an effective cost-cutter.

He and Mr Born, who went to Amax from Placer Dome, will share the new company's chairmanship, but Mr Ward will be chief executive officer.

In acquiring Amax and creating Cyprus-Amax, Mr Ward has continued to focus on two primary businesses – coal and copper. The deal involves the exchange of one Cyprus share for two Amax, subject to adjustments for price fluctuations in Cyprus stock.

The new company will be North America's second-largest copper producer, with reserves of 2.6bn tons of mineable ore. Last year, Cyprus produced 560m pounds of copper, and has a $200m capital expenditure programme under way to reduce copper production costs.

From Amax, Cyprus will get 1bn tonnes of new coal reserves and, combined, the two companies will produce about 60m tons of coal annually. Cyprus will add its new 40 per cent interest in Australia's McIlwraith McEacharn to the deal. That company, whose markets are mainly Pacific Rim countries, produces 11m tons of coal a year.

Milton Ward: focusing on two primary businesses

Cyprus-Amax will also have a 40 per cent stake in Amax Gold, which has annual production of about 250,000 ounces and reserves of about 5.6m ounces.

Cyprus has shed some gold operations in Australia and New Zealand, but gold will be included in the combined company's commodity portfolio. Cyprus is already in talks to acquire several high grade gold deposits in locations around the world.

The new company will also have dominant positions in lithium, which is used in aluminium smelting, and molybdenum, used as an alloy in steel making. Amax's oil and natural gas subsidiary will be part of the merger, but Mr Ward admits the business is not a good fit with his commodity strategy.

Notably, the new company will not have aluminium operations. Amax's large Alumax arm will be spun off independently to Amax shareholders before the merger.

"It is a very nicely structured deal. Cyprus didn't have to take the aluminum business," says Mr Tom Hess, research analyst with Northern Trust Co.

With most metals markets in the middle of a 13-year decline, analysts say the Cyprus/Amax deal has substantial potential once metals prices begin to recover. In the meantima, $100m in immediate cost savings are projected, through staff redundancies and closing Amax's New York office.

The merger will also allow a fresh look at Amax's remaining businesses, which Mr Ward is expected to streamline, aiming to be a lowest cost producer, as he has done at Cyprus.

"Milton Ward is going to have huge potential to the upside over the next several years, and very little potential for downside. If metals prices go lower, other companies, with higher costs, will be forced to curtail production first," notes Mr Hess.

Amax's Alumax spin-off is receiving close Wall Street scrutiny. "It will be a pure aluminum play," says S.G. Warburg metals analyst Mr. Victor Lazarovici.

"It has more primary metal to sell in proportion to its size than any other company." While the company recorded an operating loss in 1992 because of expenses related to the start up of its new Quebec smelter, Alumax, which turned in $2.4bn in sales last year, is one of the world's lowest cost aluminium producers.

It is valued at around $850m. If aluminium prices rise 30 per cent, that valuation could jump to about $1.6bn, analysts say, and such market responsiveness could, they add, make it a popular bet on the direction of the world economy.

Strong quarter for Bank of Montreal

By Bernard Simon in Toronto

BANK of Montreal and Bank of Nova Scotia, Canada's third and fourth-biggast hanks respectively, set the ball rolling on Canadian banks' second-quarter earnings reports yesterday, with BMO posting the stronger performance.

Its earnings climbed by 21 per cent, but Bank of Nova Scotia's income edged up only fractionally. BNS suffered a sharp drop in return on shareholders equity. BMO's earnings rose to C$173m (US$136m), or 63 cents a share, in the quarter to April 30 from C$143m, or 53 cents, a year earlier. Return on shareholders equity climbed to 14.2 per cent from 13 per cent.

Loan loss provisions widened to C$163m from C$125m, but the level of non-performing loans at the end of the quarter was 14 per cent lower than three months previously.

The bank's loan-loss forecast for 1993 remains at C$650m, up from C$550m last year.

The stronger second-quarter performance was ascribed to a 7 per cent growth in loan volumes and the receipt of C$24m before tax from the sale of non-performing Brazilian bonds.

Bank of Nova Scotia's second-quarter earnings were C$172m, up from C$171m. Per-share earnings dipped to 71 cents from 75 cents, while return on equity fell to 14.2 per cent from 16.4 per cent.

Robert Fleming teams up with SA broker

By Philip Gawith in Johannesburg

MARTIN & Co, South Africa's top stockbroking firm, is teaming up with Robert Fleming, the UK merchant bank, in a partnership aimed at developing their international mining brokerage business.

Robert Fleming will buy from McIntosh Securities, a listed Australian broker, its half-stake in McIntosh Martin, a joint venture with Martin & Co.

When the deal is completed, McIntosh Martin, which trades in South African securities held by non-residents, will be renamed Copthall Martin.

Robert Fleming intends supporting Martin & Co in widening the scope of the joint venture, particularly in the corporate finance area.

Mr Winston Floquet, managing director of Martin & Co, said: "We are delighted to be involved in a firm of Flemings' standing.

"What particularly attracted us was its global network, its roots in the investment business, and an affinity with its people and culture."

Canadian pulp deal for Finns

By Bernard Simon

ENSO-GUTZEIT, of Finland, is to become a minority shareholder in West Fraser Timber, a mid-sized Canadian forestry company, as part of a deal in which West Fraser is to acquire Enso's interest in a pulp and paper joint venture in British Columbia.

West Fraser will pay C$95m (US$74.8m) and issue 2m common shares in return for Enso's 50 per cent stake in the Eurocan venture, giving Enso a 9.6 per cent stake in West Fraser. West Fraser will also pre-pay about C$43m owing on a note issued to Enso.

West Fraser owns the other 50 per cent of Eurocan, which has interests in four sawmills and a pulp and paper mill.

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INTERNATIONAL CAPITAL MARKETS

Renewed foreign interest boosts £3bn gilt auction

By Jane Fuller in London and Patrick Harverson in New York

THE UK government bond market gave a warm response to the Bank of England's £3bn gilt auction yesterday, with stock in the auction area gaining about ¾ of a point.

At the average accepted price, the yield on the 7¾ per cent gilt due 2006 was 8.39 per cent, and the tail, the difference between the average and highest accepted yield, was zero.

GOVERNMENT BONDS

"The tail tells the story," one economist said. It was a better sign of the auction's success than the cover, which at 1.56 times was a little lower than expectations of 1.6 to 1.7 times.

Partly because of the much more realistic expectations, this auction was much better received than the last one, which was 1.77 times covered.

One of the positive factors was renewed foreign interest. Gilts' underperformance of continental European markets, notably France, over the past few weeks had creative an attractive yield differential.

The strengthening of the pound and less anxiety about inflation also provided a much more favourable background.

The best performance came at the longer end, with 10-year stock and beyond gaining about ¾ points. The "when issued" price on the new gilt went up about ½ point. This was, however, the area of the market which had seen the most underperformance ahead of the auction.

■ GERMAN bunds lost much of the ground gained since Monday in late profit-taking yesterday.

Initially, another mildly positive state inflation figure helped sentiment, but it was not enough to prevent a correction to the sharp rise that occurred earlier this week.

As expected, the Bundesbank left the repo rate unchanged at 7.60 per cent and that had little effect on the market. However, the need to support the D-Mark has weakened hopes that the council will cut key rates next week and this exerted a more negative influence.

■ SOME puzzlement at the Spanish government bond market's lack of reaction to the plummeting peseta raised concern that longer-dated stock might open lower today.

One economist described the government bond market as being "out of sync" with currency movements and with pre-election talk of more interest rate cuts.

■ NEWS of flat durable goods orders lifted longer-dated US Treasury prices yesterday morning, while the short end of the market idled ahead of the afternoon auction of five-year notes.

By midday, the benchmark 30-year government bond was up $\frac{1}{32}$ at 101$\frac{11}{16}$, yielding 6.986 per cent. At the short end of the market, the two-year note was slightly firmer, up $\frac{1}{32}$ at 99$\frac{15}{16}$, to yield 4.207 per cent.

The day's economic news was bullish for bonds. It showed no change in durable goods orders last month – analysts had been expecting a rise in orders of up to 1 per cent. The figures, which suggested that the economy continues to struggle to gain meaningful momentum, buoyed prices at the long end of the market, bringing the 30-year yield decisively below 7 per cent.

Shorter-dated paper, however, held steady as investors and dealers sat tight, awaiting the afternoon sale of $11bn in five-year notes.

■ THE yen's rise to an all-time high against the dollar provided further impetus to the Japanese government bond market.

The combination of the soaring currency and the success of Tuesday's 10-year bond auction, which looked relatively cheap, provided bullish conditions in spite of the rise in the Nikkei stock market index. Domestic institutions, which had been sitting on their hands recently, sprung into life.

With the 10-year area attracting particular interest after the recent sell-off, the yield curve flattened. Between three and 10-year stock, the yield spread came down by half a dozen basis points.

In the cash market, the yield of the benchmark No 145 due 2002 came down from 4.63 per cent to 4.575 per cent during Tokyo trading, while the price of the September futures contract rose from 106.60 to 107.

FT FIXED INTEREST INDICES

	May 26	May 25	May 24	May 21	May 20	Year ago	High *	Low *
Govt.Secs.(UK)	94.99	94.84	94.80	94.84	94.89	89.58	98.04	93.28
Fixed Interest	111.47	111.33	111.36	111.33	111.25	105.53	113.83	108.67

Basis 100: Government Securities 15/10/26; Fixed Interest 1928.
* for 1993. Government Securities high since compilation: 127.40 (9/1/35), low 49.18 (3/1/75)
Fixed Interest high since compilation: 113.83 (9/3/93), low 50.53 (3/1/75)

GILT EDGED ACTIVITY

Indices*	May 25	May 24	May 21	May 20	May 19
Gilt Edged Bargains	95.4	87.3	85.1	91.7	100.0
5-Day average	91.9	97.8	99.8	101.1	100.5

* SE activity indices rebased 1974

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Change	Yield	Week ago	Month ago
AUSTRALIA		9.500	08/03	113.5993	+0.074	7.56	7.60	7.49
BELGIUM		9.000	03/03	110.9500	+0.050	7.39	7.41	7.55
CANADA *		7.250	06/03	97.6500	+0.200	7.59	7.74	7.33
DENMARK		8.000	05/03	103.3700	-0.180	7.51	7.47	7.59
FRANCE	BTAN	8.000	05/98	105.4643	-0.046	6.66	6.61	6.67
	OAT	8.500	04/03	109.0106	-0.106	7.19	7.15	7.18
GERMANY		6.75	04/03	99.1850	-0.220	6.86	6.85	6.55
ITALY		11.500	03/03	97.5300	-0.080	12.28†	12.26	12.82
JAPAN	No 119	4.600	06/99	101.3338	+0.384	4.52	4.63	4.11
	No 145	5.500	03/02	105.8125	+0.264	4.57	4.64	4.18
NETHERLANDS		7.000	02/03	101.9500	-0.140	6.71	6.67	6.58
SPAIN		10.300	06/02	95.9474	+0.002	11.02	11.00	11.54
UK GILTS		7.250	03/98	100-23	+4/32	7.06	7.11	7.09
		8.000	06/03	99-31	+11/32	8.00	8.00	7.06
		9.000	10/08	105-02	+15/32	8.41	8.45	6.85
US TREASURY *		6.250	02/03	99-01	-3/32	6.38	6.34	5.06
		7.125	02/23	101-24	+1/32	6.98	7.04	6.81
ECU (French Govt)		8.000	04/03	103.6300	+0.080	7.46	7.48	7.59

London closing. *denotes New York morning session. Yields: Local market standard
† Gross annual yield (including withholding tax at 12.5 per cent payable by non-residents.)
Prices: US, UK in 32nds, others in decimal. Technical Data/ATLAS Price Sources

Rise in activity in convertible paper sector

By Sara Webb in London and Christopher Brown-Humes in Stockholm

THE CONVERTIBLE bond market has seen a pick-up in activity, with deals from Amer of Finland, Ericsson of Sweden, and Société Générale in recent days.

Further deals are expected soon, with Lend Lease, the Australian insurance services group rumoured to be considering a $200m Euro-convertible bond.

INTERNATIONAL EQUITY ISSUES

Amer, the Finnish consumer goods group, has announced terms for a $75m Euro-convertible bond issue, the first time such an instrument has been launched by a Finnish company.

The coupon on the 10-year bond will be 6.25 per cent, and its conversion price into Amer A shares will be FM144. This represents an 18 per cent premium to Tuesday's closing price of FM122 on the Helsinki stock exchange.

The proceeds are being used to strengthen the group's balance sheet and to raise the European profile of its Wilson Sporting Goods arm, which is already well-known in the US.

The issue, which is being lead-managed by NatWest Securities and Postipankki, is targeted at international investors in Europe and the US, where the bonds were placed under a Rule 144a private placing.

Société Générale hopes to raise FFr3bn with its global offering of deep discount convertible bonds. The bonds are priced at FFr660 and are repayable at FFr800 at maturity.

Shareholders in Société Générale have priority subscription rights on FFr1.5bn of the bonds.

Investment bankers point out that, with the outlook for some of the European stock markets seen as "rather uncertain", convertible bonds can provide investors with a more "defensive" investment instrument.

Britannia launches unusual four-year floating-rate note

By Sara Webb

BORROWERS flocked to the Eurobond market in a variety of currencies, using fixed and floating-rate instruments yesterday.

Britannia Building Society launched an unusual floating-rate deal which Samuel Montagu, the lead manager, structured to provide separate additional detachable interest rights, or ADIRs.

INTERNATIONAL BONDS

The £100m, four-year deal had an issue price of 100 for the whole package, consisting of 99.71 for the notes and coupon and 0.29 for the ADIRs.

It is understood that the lead manager kept the ADIRs, which it pointed out are "instruments likely to appeal to financial institutions".

The coupon is three-month Libor plus 15 basis points, and the ADIRs entitle the holder to receive 5 per cent minus three-month Libor if three-month Libor falls below 5 per cent.

The lead manager said the instruments would be of interest to investors who think Libor will be less than 5 per cent (three-month Libor is currently 6 per cent).

Barclays Bank also tapped the sterling sector, raising a further £100m tranche of perpetual, subordinated debt (known as upper tier two capital) following its initial £200m deal in early April.

The latest tranche was priced to yield 135 basis points over the 9 per cent gilt due 2008, whereas the initial tranche had a yield spread of 140 basis points at launch and tightened to 131 basis points in the secondary market.

The debt is callable at par after 15 years and if it is not called, the coupon will be refixed – either at the current level of 9.875 per cent or at 240 basis points over the five-year benchmark gilt, whichever of those is higher.

BZW, the lead manager, said the decision to issue a further tranche was made in response to strong investor demand, particularly in the UK. In the course of the day it rose from the fixed re-offer price of 98.951 to 99.0625.

Elsewhere, Compagnie Bancaire, the specialised financial business owned by Paribas, aimed its five-year Ecu100m deal at the retail sector.

While the Danish referendum result a week ago was greeted as good news for the Ecu bond sector, there has not been much new issuance in Ecu since then. The deal is expected to be well-received given the shortage of current coupon Ecu paper.

Daimler-Benz International Finance tapped the Eurobond market with a L125bn, seven-year deal and is understood to be keeping the lira proceeds.

The deal saw good demand in Germany, Benelux and Switzerland from investors who are familiar with this blue-chip name. The borrower has tapped the lira sector before. Deutsche Bank, the book-runner for the deal, said it looked at recent seven-year lira issues for reference, and the deal was priced to yield 10.63 per cent.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book runner
US DOLLARS							
JDC Corp.(a)ф	140	1.125	198	Jun.1997	2.25	-	Nikko Europe
American Express TRS Co.(b)‡	125	(b)	99.9R	Jun.1998	0.2R	-	Lehman Brothers Intl.
Amer Group(c)§	75	6.25	100R	Jun.2003	2.5R	-	NatWest Securities
YEN							
Mitsubishi Corp. Finance	10bn	4.35	100.1R	Sep.1996	0.2R	-	Sanwa International
D-MARKS							
Deutsche Finance Netherlands	500	6.5	101.85	Jun.1998	2	-	Deutsche Bank
STERLING							
Barclays Bank(d)‡	100	9.875	98.951R	(d)	0.75R	+135 (9%-08)	Barclays de Zoete Wedd
Britannia Building Society(e)‡	100	(e)	99.43R	Jun.1997	0.15R	-	Samuel Montagu & Co.
ECUS							
Compagnie Bancaire(f)	100	7.25	99.8R	Jun.1998	0.3R	+40 (7¼%-98)	Paribas Capital Markets
ITALIAN LIRA							
Daimler-Benz Intl. Finance	125bn	10.5	101.275	Jun.2000	1.875	-	Deutsche Bank London
SWISS FRANCS							
West Japan Railway Co.	200	4.75	100.75	Jun.2000	-	-	UBS
Taisei Onoda Co.(g)§	70	1.875ф	100	Sep.1997	-	-	Nomura Bank (Switz.)

Final terms and non-callable unless stated. The yield spread (over relevant government bond) at launch is supplied by the lead manager. ‡Private placement. §Convertible. фWith equity warrants. ‡Floating rate note. R: fixed re-offer price; fees are shown at the re-offer level. a) Final terms fixed on 2/6/93. b) Coupon pays 3-month Libor + 0.375%. Callable at par on interest payment dates from June 1996. c) Conversion price: Markka 144. Exchange rate: 5.5245 Markka/$. Callable at par from 6/7/98. d) Fungible with the outstanding £200 launched on 7/4/93. Plus 43 days accrued interest. Callable at par in 15 years, then every 5 years. If not called, coupon will be reset. e) Coupon pays 3-month Libor + 0.15%. Deal was launched with additional detachable interest rights (ADIRs) which were privately placed. The ADIRs entitle holders to receive 5% - 3-month Libor. f) Spread was over relevant BTAN. g) Final terms fixed on 1/6/93. Callable on 30/6/95 at 102% declining by ½% semi-annually. Acceleration clause. Conversion price revision clause.

Pemex raises $366m in asset securitisation debut

By Damian Fraser in Mexico City

PETROLEOS Mexicanos, Mexico's state oil company, has raised $366m in an asset securitisation deal. The privately-placed debt, which has a maturity of 7¼ years, is backed by revenues from future oil exports and marks the first time Pemex has used such revenues to guarantee its debt.

The securitised debt has a single-A rating from Standard & Poor's, the US rating agency. This is the first time S&P has given an investment grade rating to long-term uncollateralised Mexican debt. Pemex will pay 165 basis points over US Treasury bills for the debt, which was placed with US institutions earlier this week. The deal was lead-managed by Citibank.

The negotiations over the securitised debt took nearly two years to complete. Within Mexico, the question of whether Pemex should back debt with future oil revenues is a sensitive one. Mexico's oil industry was nationalised in 1938, and the regulatory law that governs Pemex prohibits it from selling rights to oil reserves. The securitisation does not explicitly commit Pemex to produce or export oil, and is therefore legal.

Pemex is expected to take advantage of more securitisation of debt now that the first issue has been successfully placed. It is also working on the securitisation of US Exim-bank export credits for a $250m debt issue to develop the Sonda de Campeche oil field, according to a report in El Financiero newspaper.

MARKET STATISTICS

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on May 26

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day.
FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. C.cpn=The current coupon.
‡three-month §above mean rate) for US dollars.
CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

RISES AND FALLS YESTERDAY

	Rises	Falls	Same
British Funds	63	3	12
Other Fixed Interest	15	0	0
Commercial, Industrial	307	219	874
Financial & Property	168	94	535
Oil & Gas	25	18	43
Plantations	0	0	8
Mines	62	21	56
Others	46	42	34
Totals	686	395	1,562

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

Issue Price p	Amount Paid up	Latest Renunc. Date	1993 High	1993 Low	Stock	Closing Price p	+ or -
165	Nil	14/6	60pm	53pm	BTP	53pm	-2
245	Nil	2/7	68pm	58pm	British Airways	65pm	
420	Nil	2/7	68pm	64pm	Compass	68pm	+1
20	Nil	14/6	10½pm	7pm	Conrad Ritblat 5S	9pm	-1
0	Nil	6/7	3½pm	1pm	Graystone	1½pm	
14	Nil	7/7	4pm	3pm	Jarvis	3½pm	-½
255	Nil	7/7	38pm	27pm	Royal Insurance	33½pm	+2½
130	Nil	5/7	54pm	28pm	Saatchi & Saatchi	48pm	-1
171	Nil	30/6	13pm	10pm	United Drug	12pm	

b Figures based on prospectus estimates. N Figures based on BMR "Headline Earnings" draft proposals. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma figures. & Issued by way of rights. † Introduction. § Placing price. ‡ Unlisted securities market. pm Price at a premium.

TRADITIONAL OPTIONS

- First Dealings May 17
- Last Dealings May 28
- Last Declarations August 12
- For settlement August 23

3-month call rate indications are shown in Saturday editions.

Calls in: Acorn Computer, BAT Inds., Cannon St. Invs., ERA Group, Hartstone, Hollas Group, Proteus and Ratners. Put in: Kewill Systems.

FT-SE ACTUARIES INDICES

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LIFFE EQUITY OPTIONS

[illegible]

May 26 Total Contracts 25,795
Calls 14,870 Puts 10,925
FT-SE Index Calls 3,116 Puts 3,526
Euro FT-SE Calls 1,142 Puts 2,133
*Underlying security price. † Long dated expiry months. Premiums shown are based on closing offer prices.

FT-ACTUARIES FIXED INTEREST INDICES

	PRICE INDICES	Wed May 26	Day's change %	Tue May 25	Accrued interest	xd adj. 1993 to date
	British Government					
1	Up to 5 years (25)	127.92	+0.07	127.83	2.22	4.09
2	5-15 years (23)	146.77	+0.33	146.29	2.43	5.22
3	Over 15 years (10)	157.33	+0.49	156.57	2.65	3.48
4	Irredeemables (6)	175.42	+0.12	175.21	1.01	8.12
5	All stocks (64)	143.37	+0.27	142.99	2.41	4.98
	Index-Linked					
6	Up to 5 years (2)	183.76	+0.08	183.61	0.73	1.92
7	Over 5 years (11)	173.81	+0.26	173.36	1.12	1.72
8	All stocks (13)	174.05	+0.24	173.63	1.07	1.75
9	Debs & Loans (66)	127.32	+0.06	127.24	1.98	4.79

	AVERAGE GROSS REDEMPTION YIELDS		Wed May 26	Tue May 25	Year ago (approx.)
	British Government				
1	Low	5 years	7.12	7.15	7.97
2	Coupons	15 years	8.02	8.07	8.81
3	(0%-7¾%)	20 years	8.26	8.29	8.82
4	Medium	5 years	7.35	7.38	9.09
5	Coupons	15 years	8.43	8.49	8.88
6	(8%-10¾%)	20 years	8.54	8.59	8.85
7	High	5 years	7.57	7.60	9.28
8	Coupons	15 years	8.69	8.73	9.01
9	(11%-)	20 years	8.74	8.78	8.96
10	Irredeemables(Flat Yield)		8.62	8.63	9.02
	Index-Linked				
11	Inflation rate 5%	Up to 5yrs.	3.01	3.03	4.01
12	Inflation rate 5%	Over 5 yrs.	3.56	3.58	4.37
13	Inflation rate 10%	Up to 5 yrs.	2.24	2.26	3.29
14	Inflation rate 10%	Over 5 yrs.	3.37	3.39	4.16
15	Debs &	5 years	9.01	9.00	10.39
16	Loans	15 years	9.46	9.47	10.15
17		25 years	9.61	9.61	10.96

Sterling devaluation and exceptionals behind 4% improvement

Courtaulds climbs to £193m

By Paul Abrahams

THE DEVALUATION of sterling helped Courtaulds, the chemical materials group, reveal pre-tax profits up 4 per cent from £186m to £193m for the year to March 31.

The results were on turnover up 7 per cent from £1.94bn to £2.07bn. Operating profits moved to £208m (£206m).

However, at constant exchange rates, turnover, operating and pre-tax profits would have been lower by £121m, £12m and £6m respectively.

The results were also helped by exceptional items producing a £1.7m profit, compared with a £15.1m loss previously.

Net debt fell by £11m to £222m, mainly due to a £49m cash repayment from the UK pension scheme. The results were compiled according to the new FRS 3 accounting standard.

"We have held our own in sales and profits and maintained a strong balance sheet while not stinting on investment," said Mr Michael Pragnell, finance director.

Performance materials recovered from a poor first half to generate most of the group's growth in operating profits.

Lydia van der Meer

Sipko Huismans, chief executive (left) and Michael Pragnell, finance director: "we have held our own in sales and profits"

The light armoured vehicle project helped the division post a 50 per cent increase from £12m to £18m on turnover of £214m (£183m).

Coatings' profits fell from £59m to £58m, despite a strong performance in the Far East, on sales of £729m (£675m).

The packaging division increased operating profits from £25m to £27m, on turnover of £260m (£244m). Sales of tubes grew by more than 20 per cent, but the European operations had a difficult year.

Chemicals' profits fell by £1m to £41m, on sales down 7 per cent from £233m to £216m. Demand for acetate products weakened, but cost-cutting and sterling's devaluation helped the business, said Mr Sipko Huismans, chief executive.

Fibres and films posted reduced trading profits of £71m (£73m) on increased turnover of £667m (£582m), mostly due to the acetate film joint-venture. Mr Huismans said the US market was proving difficult.

The new Tencel factory was operating at 80 per cent capacity and the board would consider commissioning a second line later this year, said Mr Huismans.

Operating profits in the Asia-Pacific market, which includes Australasia, increased 12 per cent to 28m (£25m) on sales of £230m (£205m). Asian profits alone increased 30 per cent on sales up 15 per cent.

European input fell to £114m (£115m) on sales up 4 per cent at £1.27bn (£1.22bn). Static North American profits of £57m were reported on turnover up 14 per cent at £588m.

Earnings per share increased by 2.6p to 37.6p. The recommended final dividend of 10.2p makes a total of 14p (13p), up 8 per cent.

See Lex

Ex-Guinness chief's payment defended

By Paul Taylor

SIR DAVID Plastow, chairman of the non-executive committee of Guinness, mounted a spirited defence yesterday of the controversial pay and pension arrangements made for Sir Anthony Tennant, former chairman of the UK drinks group.

The Guinness accounts, published earlier this month, revealed that in his last year Sir Anthony received a 24 per cent rise taking his salary to £777,000, a £204,000 annual top-up payment to take his pension to about £500,000, and a £50,000 consultancy fee, to be paid for two years.

Yesterday Sir David, whose committee of non-executive directors sets executive pay levels at Guinness, told shareholders at the annual meeting that there had been "a number of inaccurate comments" on the subject of executive remuneration, and "misunderstandings" on the issue.

However, when asked by one shareholder to reveal Sir Anthony's total pension package he said the detailed arrangements were a private matter.

"Is £500,000 correct?" pressed the shareholder. "I am not prepared to be specific," said Sir David, but he acknowledged that "the order of magnitude is about right." He stressed that Sir Anthony's pension reflected "his full 40-year working career," not just his 5-year period at Guinness, and that the agreement to provide a two-thirds pension was in his service contract, which had been "available for inspection."

Sir David said the increase in Sir Anthony's final salary was made when the Guinness share price was at an all-time high and immediately after the company announced record operating profits.

"His earnings were very much in line with top executive remuneration in this country," said Sir David, who added that the average paid to the chairmen of the top 10 companies in the UK was "comfortably more than Sir Anthony's remuneration for the final year."

The consultancy fee after his retirement was justified by Sir Anthony's "wide experience and many contacts."

One shareholder, who identified himself as "poor and ordinary," was concerned because Sir Anthony had become a director of two other companies after leaving Guinness. Sir David replied that what Sir Anthony did after he left the company was a matter for him, rather than Guinness.

Most of the other questions at the packed Guinness meeting related to the absence of shareholder perks and why the company was serving afternoon tea instead of something a little stronger.

They seemed pacified, however, to leave with a can of Guinness and a fifth of a litre of Johnnie Walker Black Label Scotch in a black velvet pouch – Pure Genius?

RPC 4.3 times oversubscribed

By Richard Gourlay

Investors seeking a stake in RPC, the rigid plastic packaging company, have subscribed for more than 11 times the number of shares on offer.

When the offer closed on Tuesday, the intermediaries offer was 11.06 times subscribed. That means £128m of cash was chasing £11.6m of shares, one of the highest levels of oversubscription in recent intermediaries offers.

On May 18 Cazenove placed 18.2m shares with institutions, representing 65 per cent of the issue. The total issue was therefore 4.3 times subscribed.

Capital Radio turns in £4.7m

By Catherine Milton

A VOTE of confidence from London's popular music lovers could not stop accountants forcing pre-tax profits at Capital Radio, the London commercial music station, down from £6.29m to £4.65m in the six months to March 31.

The comparative figure was distorted by the inclusion of a £2.18m gain on a disposal taken to comply with the new FRS 3 accounting standard, which disguised an underlying improvement of 13 per cent.

Mr Ian Irvine, chairman, stressed that adult Londoners preferred Capital FM to Classic FM, BBC Radios 4 and 1. It continued as market leader with 32 per cent of the adult listeners tuning in each week.

However, he said that "while we are enthusiastic about the prospects in the medium to long term, we continue to take a cautious view of the immediate future."

The company said that almost flat turnover of £16.1m (£16.2m), which included agency commissions, disguised an improvement in Capital Radio's sales to £14.5m (£14.2m). National advertising revenue was static but there was a "considerable increase" in local advertising revenue.

Turnover at Capital Group Studios fell to £1m (£1.2m) and the company broke even, compared with a profit of £200,000.

Operating costs fell to £10.4m (£11.1m) including the benefit of a February decision by the Copyright Tribunal which reduced Capital Radio's effective royalty payments to Phonographic Performance Limited, the representative of record companies, from 6.5 per cent to 5 per cent of turnover.

Interest receivable fell to £795,000 (£810,000).

An accelerated unchanged interim dividend of 1.75p was paid on April 5. Earnings declined to 4.6p (6.3p).

Flextech in Family Channel venture

By Raymond Snoddy

FLEXTECH, the oil services company that transferred itself into a cable and satellite television operation, yesterday announced a joint venture to launch The Family Channel in the UK.

International Family Entertainment, which owns The Family Channel available in more than 60 per cent of US homes, paid more than $90m (£58m) for TVS Entertainment, the south of England ITV company that lost its franchise.

Flextech, the USM-quoted company which controls The Children's Channel, has now agreed to take a 39 per cent stake in The Family Channel (UK).

The two groups will share a satellite channel with the children's programmes during the day followed by the Family Channel in the evening.

Mr Roger Luard, of Flextech, said yesterday: "This is a very exciting development."

The package of family entertainment will be launched in September as part of the new subscription scheme being launched by British Sky Broadcasting in the autumn.

At least 10 channels will be launched as a new subscription package priced initially at around £3.99 a month.

Mr Tim Robertson, president of IFE, said yesterday that he saw the joint venture with Flextech as a way into other international markets including Asia. From the beginning The Family Channel plans to make original programmes such as quizzes at its UK headquarters – the old TVS studios at Maidstone.

Meanwhile, Flextech yesterday returned pre tax losses of £1.57m for the period February 18 to December 31 1992.

Because of the sale of its oil services activities it said no meaningful comparatives were possible.

A dividend of 0.5p is recommended. Future dividends will be determined in the light of trading results and prospects.

The Children's Channel saw revenues increase in the final quarter of 1992 by 37 per cent.

The channel has recently signed a contract with BSkyB (in which Pearson, owners of the Financial Times, has a significant stake) which "will have a positive impact on the future revenue prospects of TCC", the group said.

Furthermore, Flextech said yesterday that TCC had entered into a joint venture with Quantum International, a subsidiary of National Media Corporation of the US, to broadcast a home shopping "informercial" service on its surplus hours on Astra 1A.

The board believes the joint venture will benefit from the forecast increase in cable subscribers and dish owners throughout Europe.

Mixed response to North West Water scrip option

By Norma Cohen, Investments Correspondent

ENHANCED scrip dividends, briefly April's corporate finance flavour of the month for UK companies, burst back on the scene yesterday to mixed reviews from shareholders.

"As a one-off, we don't mind it," said one shareholder. Investors said North West Water's finances appeared sufficiently healthy to avoid the view that it had resorted to paying dividends in shares because cash was not available.

"But there is a danger in the constant issue of new equity. We don't want a series of disguised rights issues." And, shareholders said, the structure of the latest deal looked suspiciously like a capital raising exercise.

North West, one of the 10 privatised water companies, announced a cash final dividend of 14.27p and offered investors an alternative in shares worth an additional 50 per cent more at 21.405p. The point of the exercise, said the company and its advisers, Swiss Bank Corporation (SBC), is to cut the bill for Advance Corporation Tax.

The point concentrating the minds of investors is the company's calculation of its tax savings relative to its total savings, assuming that 90 per cent of shareholders choose shares rather than cash. North West says it will save £60m, of which £13.3m is ACT savings. The remainder of the savings are simply cash payments the company will not have to make, a move which will effectively give it access to new capital.

North West yesterday tried to soothe its shareholders' anxieties, saying: "There is no present intention to extend this to future dividends." However, RTZ, which was the first company to issue enhanced scrip dividends, said on Tuesday that it would offer the option for its interim dividend as well, an ominous note from shareholders' point of view.

"If companies want cash, they should simply conduct a rights offering," said one shareholder. In a rights, companies would be expected to spell out in detail how they intended to use the cash and what return they expected to earn on the new capital.

Yesterday, North West said it intended to use the funds for international expansion, development of non-core activities and expanded research and development.

Shareholders said that the plans went further than those outlined by the company when it first contacted them informally to ask how an enhanced scrip issue might be received. "We told them we wanted to know more details," one investor said.

The deal, like the half dozen or so for other UK companies, works like this: companies incur ACT on profits they earn which are passed along in the form of dividends to shareholders. However, they may offset that by the amount of corporation tax they owe, effectively eliminating the tax charge on their dividend payments. There is no ACT payable on dividends issued in shares rather than cash.

But some companies pay little UK corporation tax anyway, and thus do incur additional tax when they pay cash dividends. Barclays de Zoete Wedd, in April, led the first deal designed to get around that problem.

Up until today, the companies issuing scrip dividends have been those with large earnings from abroad on which no UK corporation tax is incurred.

In the case of North West, its extensive capital expenditure programme has given rise to such large tax write-offs that its corporation tax charge is insignificant. SBC said that at least six other water companies are in a similar situation, although it declined to say whether issues for those are imminent.

"We are being selectively approached and we are selectively approaching other companies," maintained Mr Roger Luskam, SBC executive director.

Meanwhile, the Treasury, which stands to lose hundreds of millions of pounds in tax revenues from the various enhanced scrip dividends announced so far, said it was "watching" the situation, although it has no plans to alter the tax laws.

Chancellor Norman Lamont, in the March 16 Budget, announced a review of ACT with respect to charges incurred on dividends paid out of overseas profits.

Casket advances to £2.85m

By Catherine Milton

CASKET, which is to make hicycles similar to the high-tech Lotus on which Chris Boardman won an Olympic medal last summer, clocked up pre-tax profits of £2.85m in the year to March 31 on the back of a big jump in cycle sales.

This was a sharp rise from £341,000, hut the comparison was flattered under FRS 3 accounting rules by £1.72m in provisions made in the previous year for operations.

Mr Joe Smith, chief executive, said: "We must remain cautious while the recovery is still patchy, but we are optimistic ahout the outlook for Casket."

The Boardman-inspired bike, using licenced elements of the Lotus design and retailing for about £3,000, has yet to enter production, hut Casket has already launched five conventional models under its new LotusSport brand. The hrand is Casket's in perpetuity, suhject to minimum sales of "a few thousand cycles" a year, the company said.

Casket now has nine brands, including famous names such as Falcon and British Eagle, and about 250 models. UK production accounts for a third of the total and is expected to climb to half this year.

Casket claims 25 per cent of the UK cycle market and is not looking for "further dramatic increases," aiming to increase sales in continental Europe. Cycle exports are now 10 per cent.

Turnover in the year under review rose to £96.5m (£71.9m). Sales of cycles rose by 70 per cent to £52.2m (£30.7m) some 600,000 (420,000) cycles, which gave operating profits of £3.99m (£2.25m).

The clothing division, reorganised after the acquisition of Yates in September, lifted sales 12 per cent to £44.3m (£39.5m), giving operating profits of £806,000 (£1.23m).

Casket sells most of its largely overseas-sourced clothes under the "own labels" of high-street retailers and reported margin pressure as buyers tried to hold prices in spite of sterling's devaluation.

Net interest payments fell to £1.48m (£1.75m). Borrowings were reduced to £4.17m (£5.6m) and gearing fell to 31 per cent (46 per cent). Net cash of £1.43m was generated.

The recommended final dividend of 0.5p (0.35p) gives a total of 0.8p (0.5p). Earnings per share were 2.53p (0.12p).

Whessoe slips back to £4.02m

By Peter Pearse

WITH FRS 3 accounting standards boosting last year's pre-tax line, Whessoe, the instrumentation and control and piping systems group, reported a slip in taxable profits from £4.16m to £4.02m in the half-year to March 31.

Naturally though, Mr John Samuel, group financial director, was keen to emphasise that, at the operating level, profits grew 15 per cent to £3.74m (£3.25m), a result with which he was "pleased", given the "difficult trading environment."

Group turnover advanced 11 per cent to £40.8m (£36.6m). Earnings per share declined to 11.6p (13.7p), though without FRS 3, they would have increased, the company said. As a result, the interim dividend is lifted to 2.3p (2.2p).

In February, Whessoe launched a £21.8m bid for Autronica, the Norwegian maritime and industrial instrumentation and fire security systems group.

Mr Samuel thought it "highly unlikely" that the bid would be turned down by the Norwegian authorities, hut could not guess at the conditions that might be imposed.

A rights issue in February raised £14.3m towards the cost of the bid, with the balance coming from cash reserves.

The instrumentation and control division lifted profits to £1.76m (£1.13m) on turnover of £15.7m (£10.5m), helped by a full contribution from Varec, acquired in 1992. Profits in the piping systems side, however, fell to £2.06m (£2.3m) on turnover down at £16.9m (£19.4m).

DIVIDENDS ANNOUNCED

		Current payment	Date of payment	Corres - ponding dividend	Total for year	Total last year
Casket	fin	0.5	Oct 1	0.35	0.8	0.5
Countryside Prop	int	1.41	Sept 2	1.41	-	4.11
Courtaulds	fin	10.2	Aug 2	9.35	14	13
European Colour	fin	0.525	July 19	0.4	0.8	0.65
Flextech §	fin	0.5	-	nil	0.5	nil
Monks Invest	fin	4.7	Aug 3	4.7	6.7	6.7
Nth West Water	fin	14.27	Aug 5	13.13	21.4	19.67
Olives Property	fin	nil	-	3	1.5	6
Plysu	fin	5	July 20	4.35	7†	6
Rolfe & Nolan	fin	4.65†	July 23	3.9	7.2	6.2
Wamford Invs	fin	4.75	Oct 11	4.5	7.5	7.25
Whessoe	int	2.3	July 16	2.2	-	6

Dividends shown pence per share net except where otherwise stated. †On increased capital. §USM stock.

Result of investigation into share placing expected early June

Davy probe near completion

By Tim Coone in Dublin

THE IRISH Stock Exchange says that its investigation into the April 30 placing of 25.4m shares in Greencore, the sugar, milling and malting group, by Davy, the Dublin stockbroking firm, is expected to be completed early next month.

The investigation is focusing on several aspects of the placing, including Davy's original share placing arrangements with SG Warburg, the London broking firm with whom Davy has said there was a profit and loss sharing agreement which was abandoned on the day of the placement.

Warburg was to have taken up to 10m of the shares, as a buyer of last resort, but Davy ended up placing 7m shares with groups associated with the Davy directors instead.

Two investigators from the London Stock Exchange's surveillance unit together with Mr David Mulville, the ISE's compliance officer, are apparently heading the investigation.

In a new development earlier this week, Davy said that some of the telephone conversations made from the company's dealing room, failed to be recorded on the day of the Greencore placing. As standard practice, most brokers record dealing room telephone calls to clear up any subsequent misunderstandings.

In the week following the placement, trading in Greencore shares were suspended in London and Dublin for two days, after the Irish government, which owned the Greencore shares, said it had been informed by Davy that there might be legal problems with the placement.

The ISE then took the unusual step of making a public statement saying Greencore shares had been trading on the basis of "misleading information" following the placing and that the conduct of Davy was to be investigated.

Several overseas institutions then pulled out of the placement. However, it was rescued by Davy's parent, the Bank of Ireland, which stepped in to buy 9.6m of the shares at the offer price of I£2.75.

Mr Leonard Abrahamson, the ISE's new president, said the main findings of the investigation will be made public.

DCC rises and confirms listing plan

By Tim Coone in Dublin

DCC, the Dublin-based private industrial holding company, improved pre-tax profits by 2 per cent to I£13.8m (£13.4m) for the year ending March 31.

At the same time the company confirmed that it would seek a stock market listing "in the medium term".

DCC is one of the few private Irish companies to publish full financial statements.

The company has been built up over 16 years from a I£1m venture capital operation into a holding company with net assets now totalling I£136m, including a net cash balance of I£21m, by Mr Jim Flavin, its founder and chief executive.

DCC took a majority stake in Printech and Wardell Roberts at the end of last year, increased its holding in Fyffes to 11 per cent, and more recently announced its intention to take a 29.9 per cent stake in Kingston Oil, the UK recycler of waste oils.

It has invested I£22m in building these and other stakes over the past year.

Earnings per share for the year totalled 77.8p (76.5) and a dividend increase to 11.5p (10p) is proposed.

DCC is 95 per cent-owned by institutional investors, the two largest being the Bank of Ireland and Irish Life.

BP agrees division sale to managers for £250m

By Deborah Hargreaves

BRITISH PETROLEUM agreed yesterday to sell its consumer products division to a management buy-out for £250m. Sir Allen Sheppard will become non-executive chairman of the new company with Mr Michael Handley, previously divisional managing director of BHM, to become managing director.

The consumer products division is a leading supplier of household detergents, cleaners and personal care products to supermarkets. It comprises Robert McBride in the UK, Yplon in Belgium and Solaro in Italy with a workforce of 4,000 and a turnover last year of £350m.

Financial backing for the buy-out was put together by Legal and General, the insurance company, which is understood to have beaten several other management groups in the bidding process.

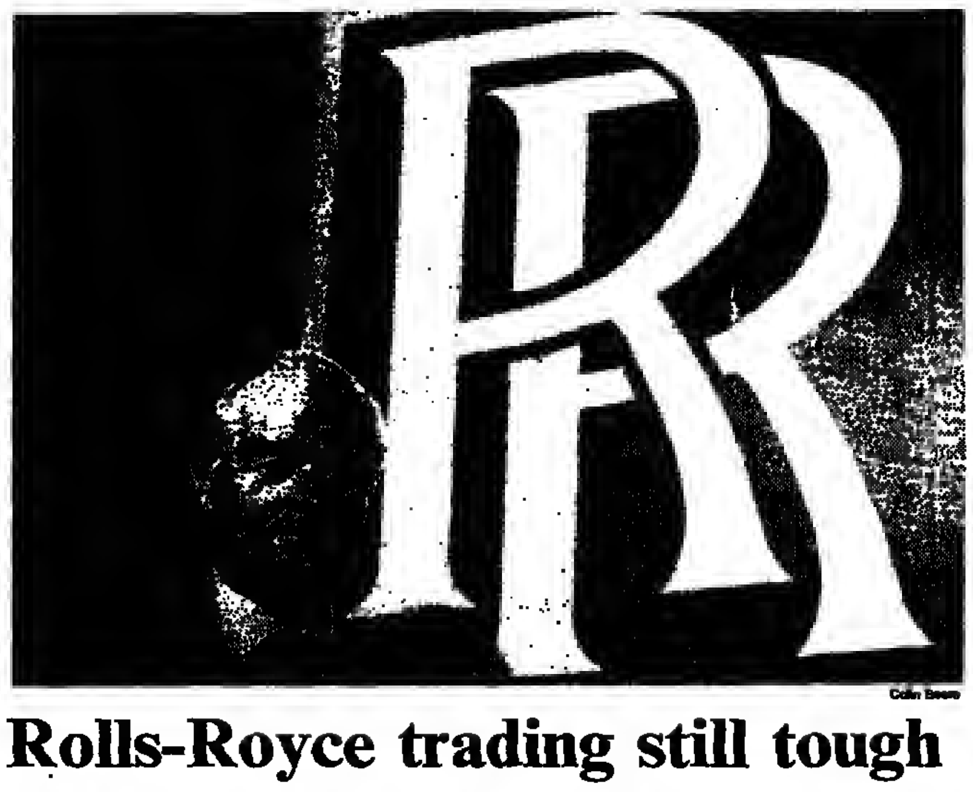
The consumer products division is the second of BP Nutrition's businesses to be sold since the sector was put up for sale about a year ago.

Consumer Foods was sold to Sara Lee, the US group, last December. Purina, animal foods in the US and other animal feeds businesses in Europe are still for sale.

The consumer products business is understood to have enjoyed solid profits in the past couple of years although BP will not disclose figures.

Dencora placing to raise £1m

Dencora, the property and housebuilding group, has placed 840,000 ordinary 25p shares for cash with institutional investors at 122p each. Last month, the company announced a swing from pre-tax profits of £404,000 to losses of £936,000 in 1992.



Colin Beere

Rolls-Royce trading still tough

ROLLS-ROYCE, the UK aero-engine and industrial power group, warned yesterday that trading conditions would remain under pressure over the next two years, writes Paul Betts.

He saw little prospect of an improvement in market conditions until 1995, but Sir Ralph Robins, chairman, told the annual general meeting that the group was "determined not to be swept off course."

The high level of investment in research and development necessary for long-term growth strategies would continue.

Describing market conditions as "very difficult", Sir Ralph said that the group's current level of profitability was "quite unsatisfactory."

Rolls-Royce reported a pre-tax loss of £184m last year, reflecting restructuring provisions of £266m.

The company has also announced plans to reduce its workforce by a further 5,000 people over the next two years.

But Sir Ralph said he believed the company's strategies would strengthen its position in world markets when the recovery eventually occurred.

European Colour at £0.64m

By Ian Hamilton Fazey, Northern Correspondent

EUROPEAN Colour, which makes pigments for printing inks, lifted pre-tax profits from £47,000 to £640,000 in the year ended March 31.

A 22 per cent surge in European mainland sales helped group turnover rise by over 5 per cent to £14.01m (£13.27m). The final dividend is 0.525p (0.4p) making 0.8p (0.65p) for the year.

Earnings per share rose to 1.35p (0.33p).

European sales showed similar growth in 1991-92 and now account for 27 per cent of turnover.

This follows development of new high quality products offering brighter colours, and attainment of the ISO 9001 European quality standard.

The company made small net gains from Britain's exit from the ERM after price adjustments to imports and exports, but these went towards eliminating a Deutschemark overdraft it was maintaining as a hedge.

Mr Mike Armitage, managing director, said the company was constrained by its small size, but was a successful niche player, selling to inkmakers. He said the company would grow organically.

He would not rule out acquisitions if the fits were right. "But don't hold your breath," he added.

NEWS DIGEST

Perpetual surges to £5.09m

SHARES OF Perpetual, the unit trust and portfolio management organisation, rose 52p to 453p yesterday on news of a surge in profits from £2.18m to £5.09m pre-tax for the six months to end-March.

Turnover of £325.83m compared with £121.33m previously and basic earnings per share worked through at 13.28p (6.14p), or 12.05p fully diluted. Because of changes in the Budget payment of the 1.8p (1.2p) interim dividend was brought forward to April.

Mr Martyn Arbib, chairman, believed that a further improvement in profits could be achieved in the second half and said it should be possible to declare a "substantial increase" in the final dividend – last year's final was 3.6p.

He pointed out that funds under management increased over the opening six months from £846m to £1.34bn boosted by an influx of some £260m of net new money. The funds have subsequently increased to about £1.5bn.

Turnover and pre-tax profits for the year to September 30 1992 totalled £246.64m and £4.79m.

Cambridge expects 'significant' losses

Cambridge Group, the Dublin-based asset financing and confirming company, said yesterday that it expected to report "significant losses" for the year to February 28 1993.

The losses put Cambridge in breach of its banking covenants and the banks have been asked for a temporary waiver of these breaches, pending a review of its business and renegotiation of banking facilities.

The company said the losses were due mainly to provisions in the confirming division, because of the impact on customers in the second half of high interest rates and exchange rate volatility.

The division's business was under review and the group annual results would be delayed pending publication of the review.

No final dividend would be proposed.

In the six months to August 31 Cambridge saw pre-tax profits fall 43 per cent to I£1.43m.

During the period, debt facilities were increased by I£9m to I£74.5m.

Hoskins in takeover talks

Hoskins Brewery is in talks which might lead to a substantial acquisition. Part of the consideration would be met by the issue of new shares.

Hoskins said the acquisition would be coupled with a pre-conditional cash offer for all of ths company'a issued share capital at 55p per share.

The making of the offer would be conditional on the notice to convene an EGM to approve the acquisition being posted to shareholders.

Hoskins anticipated that certain shareholders would not accept such an offer, if made, and said that any Hoskins ordinary shares in respect of which acceptances of the offer may be received, would be placed with institutions and others at 55p per share.

Warnford Invests falls to £7.66m

Pre-tax profits of Warnford Investments, the property investment group, fell by 6 per cent from £8.17m to £7.66m in the year ended December 25.

Turnover fell from £12.5m to £12.1m. Net attributable profits came to £5.24m (£5.57m) and earnings per share were 13.65p (14.51p). The final dividend has been raised to 4.75p for a total of 7.5p (7.25p).

The group's investment properties were valued on an open market basis at £89.9m (£103.3m) as at December 25.

Monks net asset value improves

Net asset value of Monks Investment Trust improved during the year to April 30 from 409p to 472.2p per share.

Net revenue advanced to £6.12m (£5.76m), equivalent to earnings per share of 7.89p (7.43p). The dividend is being held at 6.7p via a proposed unchanged final of 4.7p.

Celltech losses trimmed to £4.28m

Losses at Celltech, the biotechnology group, were trimmed from £4.52m to £4.28m pre-tax for the six months ended March 31. Turnover of £5.5m compared with £5.35m.

The result reflected a "good performance" from Celltech Biologics and receipt of £2.05m (nil) milestone payments, a further tranche in the £26m agreement with Bayer, the German pharmaceutical group.

These items offset a 26 per cent increase in research and development investment to £6.91m and a decline in net interest income to £556,000 (£1.06m).

Celltech is continuing with its plans to float in the 1993-94 year.

Newcastle Mortgage buys Gresham assets

Newcastle Mortgage Corporation, a wholly owned subsidiary of Newcastle Building Society, has exchanged contracts for £16m mortgage assets from Gresham Mortgage. The acquisition is expected to be completed in August.

This is the third mortgage acquisition for Newcastle since 1991, when it took over the mortgage book of the Gibraltar-based Heritage Building Society. In 1992 it acquired the mortgage book of the Sun Building Society in Liverpool.

Acquisition behind fall at Rolfe & Nolan

Profits at Rolfe & Nolan Computer Services, a futures and options computer and software specialist, declined from £1.39m to £1.22m pre-tax for the year to end-February.

Last month the group acquired the 80.1 per cent balance of Brokerage Systems and under current accounting rules had to take that company's losses into its year-end figures.

Excluding those losses Rolfe's pre-tax profit would have totalled £1.71m.

Group turnover expanded from £6.74m to £11.23m with Brokerage Systems contributing £3.27m. Earnings per share emerged at 17.7p (15.9p) and a final dividend of 4.65p raises the total by 1p to 7.2p.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Apollo Metals, Davenport Vernon, Dobson Park Inds., Greyfriars Inv., Mid Kent, Morland & Co., Smart (J) & Co.

Finals- Babcock Intl., City of London PR, Fleming Emerging Markets, Gartmore Value Inv., Gresham House, Jackson Group, Macdonald Martin Dist., National Power, Quadrant, Southnews, South West Water, Toshiba.

FUTURE DATES

Interims-

David Lloyd Leisure	Jun. 15
Hawtin	Jul. 8
Stalds	Jun. 2

Finals-

ACT	Jun. 10
Ang. Amer. Crp. of S. A.	Jun. 1
BPB Inds.	Jun. 30
Bradford Prop. Tst.	Jun. 15
Brazilian Inv. Tst.	Jun. 8
Critchley	Jun. 7
Leigh Interests	Jun. 7
London & O'seas Freight	Jun. 4
Regalian Props.	Jun. 17

COMPANY NEWS: UK

Swiss eyes on UK engineers

Paul Cheeseright looks at the fund-raising proposals of Emesco

EUROPEAN Industrial Equity Company, the Luxembourg investment arm of Emesco, the Swiss management services group, is completing a SFr50m (£22m) fund-raising in London and other European centres.

The move will lead to takeovers of medium-sized UK engineering companies over the next year. Half of the fund-raising is via a rights issue which has already been taken up. Apart from Emesco, which in addition to managing EIEC holds 30 per cent of the equity, shareholders include insurance groups like Equitable Life and National Provident.

Barclays de Zoete Wedd Securities, handling the fund-raising in London, expects to completa the other half, a share placing, by the end of this month. EIEC units, comprising one ordinary share and one redeemable preference share, each with a par value of SFr100, are being sold at SFr228 each.

Under present plans the units, currently quoted in Luxembourg, will be quoted in London or Zurich by 1998.

Emesco, which has set up a London office, is seeking to invest EIEC funds in engineering companies with a turnover of between £10m and £50m.

Its previous investments in continental Europe have been in the unquoted sector, often "family businesses going through a change of generation," said Mr Richard Butler, chairman of EIEC and an Emesco director. But in the UK, he added, "I think we will be dealing with listed companies." Its search for investment is largely outside London.

'We look at the product rather than the financials. What does the company make? Is it in a special market where there are opportunities? If we're excited about the product, then we go ahead. Emesco is not a rescue merchant, called in by the banks at the last moment. We're more interested in companies which have lost their way, but which have good products and need restructuring.'

Emesco's technique is to identify companies which need restructuring and are usually loss-making, buy them through EIEC, put in place its own executives as a management team and once the company is making profits either to float it or sell it to a third party. It aims to complete the process within five years.

"We look at the product rather than the financials. What does the company make? Is it in a special market where there are opportunities? If we're excited about the product, then we go ahead," said Mr Butler.

"Emesco is not a rescue merchant, called in by the banks at the last moment. We're more interested in companies which have lost their way, but which have good products and need restructuring," he said.

Emesco then is different both from a management consultant, providing an existing management with solutions to specific problems, and a venture capitalist, providing equity funds but no management.

EIEC started in 1986 and reorganised its share capital in 1991. Its portfolio of companies, bought in 1991-92, comprises Atlantic Zeiser, a numbering machine company in Germany; Caracte(grave)res Werding, a Swiss company which once made metallic characters for typewriters but now manufactures aerosol spray systems; Convac, based in Germany and manufacturing equipment for the computer industry; and Etheco, an Italian company making thermostats.

Prime People sells Bowford for £1.06m

PRIME PEOPLE, the Manchester-based specialist training group, yesterday announced that it was selling Bowford Engineering Services only six months after reversing into the company in a £2.8m deal.

At the same time, USM-quoted Prime People announced pre-tax losses of £392,255 for the 10 months to October 31, against £575,518 for the whole of 1991. Mr Peter Hearn, who became chairman in January when Mr Alan Creenough resigned, said the result was "disappointing". Turnover was £765,840 (£918,394 for year).

In January, the company warned that Bowford's turnover had failed to improve from its level at the time of the acquisition. In the event, Bowford incurred losses of £170,361 for the six months ended April 30, 1993.

Bowford has been sold to BA Holdings, a company formed by the trustees of the family settlements of Mr John Ashford, a Prime People director, and Mr Geoff Bowers and their respective wives. Mr Ashford and Mr Bowers founded Bowford, which provides technically-based training services, in 1981.

Consideration for Bowford will be £1.06m. In addition, an intercompany balance due to Bowford from Prime People of £637,250 will be waived and 31m ordinary shares issued to the vendors of Bowford (other than Mr Bowers) will be converted into 31m deferred ordinary which will have essentially no rights.

Mr Ashford plans to resign as a Prime People director and will not receive any compensation for loss of office.

The sale is subject to approval at an EGM to be held on June 18.

ANGLOVAAL GROUP

Declaration of Final Dividends – Year Ending 30 June 1993

Dividends have today been declared in the currency of the Republic of South Africa to holders of ordinary shares listed below. Salient dates related to these declarations are:

Last day to register for dividends and for changes of address or dividend instructions	Friday 18 June 1993
Period during which transfer books and registers of members will be closed (both days inclusive)	Saturday/Friday 19 to 25 June 1993
Currency convertion date for sterling payments to shareholders paid from London	Monday 28 June 1993
Dividend warrants posted (on or about)	Friday 23 July 1993

Name of company	No.	Dividend declared Cents per share June 1993	June 1992	Total for financial year Cents per share 1993	1992
Eastern Transvaal Consolidated Mines, Ltd *Reg. No. 01/08442/06*	86	7	7	12	14
Hartebeestfontein Gold Mining Company Ltd *Reg. No. 05/33926/06*	75	65	45	95	95

Notes: 1. The dividends are paid subject to conditions which can be inspected at the registered office or the office of the London Secretaries of the companies. These companies are incorporated in the Republic of South Africa.

2. The timing of the final dividend of Zandpan Gold Mining Company Limited has been deferred until the company's position viz-a-viz the proposed Secondary Tax on Companies (STC) is clarified. This will ensure that shareholders do not suffer a reduction of their dividends as a result of the introduction of STC. Depending on the final form of STC legislation, future dividends are likely to be declared not more than a month later than in the past.

By order of the boards
Anglovaal Limited
Secretaries

Per: K G Williams
26 May 1993

London Secretaries
Anglovaal Trustees Limited
33 Davies Street
London W1Y 1FN

Registered office
Anglovaal House
56 Main Street
2001 Johannesburg

COMPANY NOTICES

N K PROPERTIES LIMITED
(Incorporated in South Africa)
Reg. No. 01/00854/06

DECLARATION OF DIVIDEND AND DEBENTURE INTEREST DISTRIBUTION NO.01

Notice is hereby given that interim dividend No.01 of 0.028 cents per share, and debenture interest of 33.172 cents per debenture be declared payable to shareholders registered on 11 June 1993. The total distribution for the 6 month period to 30 April 1993 will be 33.2 cents per linked unit. Cheques will be posted on or about 25 June 1993. S.A.Non-Resident Shareholders' Tax will be deducted at source where applicable.

Holders of Bearer Share Warrants in the name of New Kleinfontein Properties Limited are reminded that, in terms of the Scheme of Arrangement whereby the company was converted to a Property Loan Stock company with effect from 1 November 1992, they are required to surrender their Share Warrants to the company's Transfer Secretaries for cancellation and replacement by certificates representing entitlements of new linked units reflecting the new name of N K Properties Limited.

By Order of the Board of Directors
AFC Properties (Pty) Ltd.
Secretaries

N K Property Management Co. (Pty) Ltd.
26 May 1993

Registered office: 25 Wellington Road, Parktown, 2193.
Transfer secretaries: Barclays Registrars, 34 Beckenham Road, Beckenham, Kent BR3 4TU.

LEGAL NOTICES

No. 035 of 1993
In the HIGH COURT OF JUSTICE,
Chancery Division, Manchester District Registry, Mr Deputy District Judge Kushner
In the Matter of V.N.G. GROUP LIMITED
And in the matter of the Companies Act 1985

NOTICE is hereby given that a Petition was on the 21st day of January 1993 presented to Her Majesty's High Court of Justice for the confirmation of the cancellation of the sum of £988,305 standing to the credit of the Share Premium Account of the above-named Company. And NOTICE is further given that the said Petition is directed to be heard before the Honourable Mr Justice Morritt, Vice-Chancellor of the County Palatine of Lancaster, sitting as a Judge of the High Court at the Court House, 1 Oxford Row, Leeds on Tuesday 8th June 1993.

ANY Creditor or Shareholder of the said Company desiring to oppose the making of an Order for the confirmation of the said reduction of capital should appear at the time of that hearing in person or by Counsel for that purpose. A copy of the said Petition will be furnished to any person requiring the same by the undermentioned Solicitors on payment of the regulated charge for the same.

Dated this 27 day of May 1993
Slater Heelis of 71 Princess Street,
Manchester, M2 4HL.
Solicitors for the above named company.

IN THE MATTER OF
THE CONTRACT CORPORATION (U.K.) LIMITED
t/a TARGET RECRUITMENT
AND
IN THE MATTER OF THE INSOLVENCY ACT 1986

NOTICE IS HEREBY GIVEN pursuant to Rule 4.106 of the Insolvency Rules 1986 that on 13th May 1993 I, SURJIT KUMAR SINGLA of Singla & Company, 49 Queen Victoria Street, London EC4N 4SA was appointed Liquidator of the above-named company by the members and creditors.

NOTICE IS ALSO HEREBY GIVEN that the creditors of the above-named Company, which is being voluntarily wound-up, are required, on or before the 13th July 1993, to send in their full Christian and surnames, their addresses and descriptions, full particulars of their debts or claims, and the names and addresses of their Solicitors (if any), to the undersigned Surjit Kumar Singla F.C.A. of Singla & Company, 49 Queen Victoria Street, London, EC4N 4SA, the Liquidator of the said Company, and, if so required by notice in writing from the said Liquidator, are, personally or by their Solicitors, to come in and prove their debts or claims at such time and place as shall be specified in such notice, or in default thereof they will be excluded from the benefit of any distribution made before such debts are proved.

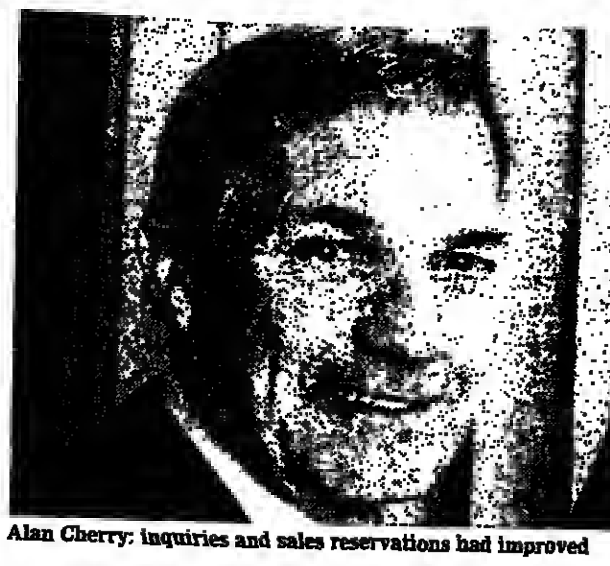
Dated 13th day of May, 1993
Surjit Kumar Singla
Liquidator

ART GALLERIES

£16.8m rights to fund expansion as profits rise 28%

Countryside cash call

By Paul Taylor



Alan Cherry: inquiries and sales reservations had improved

COUNTRYSIDE Properties, the residential, commercial and industrial property company based in the south east of England, is seeking to raise £16.8m to fund an expansion of its housebuilding activities through a 3-for-11 rights issue priced at 106p.

The cash call was accompanied by a bullish assessment of the group's househuilding prospects from Mr Alan Cherry, chairman, and the interim results which showed a 28 per cent increase in pre-tax profits because of the absence of provisions.

In his letter to shareholders Mr Cherry said, "there are signs that the housing market has begun to recover from the recession which started towards the end of 1988. Against this background the directors consider that it is now appropriate to expand the group's housebuilding activities."

Countryside plans expansion on two fronts: speculative househuilding for sale to owner occupiers, and housebuilding under design and build contracts for housing associations and other social housing agencies. Eventually the group is aiming to build 3,000 new homes a year in the south east – up from a projected 1,250 this year.

Funds raised through the rights issue, underwritten by Smith New Court, will be used "to take advantage of opportunities to purchase land which is currently under option, at what is expected to prove to be advantageous prices."

Looking ahead, Mr Cherry described the group's forward sales position of in excess of £100m compared with £55m this time last year as "most encouraging." He said both inquiries and sales reservations had "greatly improved" and that new house prices had generally stabilised with modest increases being obtained on some developments.

In the six months to March 31 the group achieved pre-tax profits of £2.6m compared with £2.04m. Last time profits were reduced by a £1.02m provision relating to residential development sites. Turnover slipped to £41.9m (£42.2m).

Sales by the residential division increased to £36.7m (£36m) and profits grew to £3.1m (£2.9m). The commercial division made a profit of £100,000 compared with a loss of £300,000 on turnover which fell from £3.3m to £2.3m, while property investment income was static at £2.9m and produced an unchanged loss of £600,000.

Earnings per share increased to 4.3p (3.2p) and the interim dividend is being maintained at 1.41p.

The group's shares closed unchanged at 130p.

Storehouse calls off its plans to sell loss-maker

By Neil Buckley

STOREHOUSE, the UK retailing group whose principal interests are the BhS and Mothercare chains, said yesterday it had abandoned plans to sell the loss-making Blazer menswear chain because the offers had been too low.

Blazer, which incurred a £600,000 operating loss last year, was the final "non-core" business Storehouse was attempting to sell, following the disposal of the Habitat and Richards chains last year and the end of its Oppidan property joint venture in March.

Mr Graham Rider, finance director, said that while several offers to buy Blazer had been received, they would have represented a bigger book loss than the board was prepared to accept.

He added Blazer would still be classified "non-core", as it did not have the potential to be a mass-market business like BhS or Storehouse. But it was essentially sound, and Storehouse believed it had a number of ideas that could return it to profit.

"There are certain things we know need putting right within the business which we did not do while it was up for sale, but we will now be looking at," he said.

PUBLIC WORKS LOAN BOARD RATES
Effective May 25

	Quota loans*		
Years	EP†	A††	at maturity§
1			6
Over 1 up to 2	6¼	6¼	6¾
Over 2 up to 3	6⅝	6⅝	7¼
Over 3 up to 4	6⅞	7	7½
Over 4 up to 5	7⅛	7⅛	7⅞
Over 5 up to 6	7¼	7⅜	8⅛
Over 6 up to 7	7½	7½	8⅜
Over 7 up to 8	7⅝	7¾	8¾
Over 8 up to 9	7¾	8	8⅞
Over 9 up to 10	8	8⅛	9⅛
Over 10 up to 15	8⅜	9	9½
Over 15 up to 25	9½	9⅝	9¾
Over 25	9⅝	9¾	9¾

*Non-quota loans A are 1 per cent higher and non-quota loans B 2 per cent higher in each case than quota loans. †Equal instalments of principal. †† Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest) § With half-yearly payments of interest only.

Prices for electricity determined for the purposes of the electricity pooling and settlement arrangements in England and Wales.

1/2 hour period ending	Provisional Price for Trading on 27.05.93 Pool purchase price £/MWh	Final Prices for Trading on 28.04.93 Pool purchase price £/MWh	Pool selling price £/MWh
0030	19.00	18.54	18.54
0100	19.00	18.49	18.49
0130	18.81	18.68	18.68
0200	19.00	35.00	38.73
0230	19.00	35.00	38.50
0300	18.81	35.00	38.44
0330	18.54	24.32	27.37
0400	18.54	18.70	18.70
0430	18.54	18.54	18.54
0500	18.54	18.54	18.54
0530	18.31	18.50	18.50
0600	18.49	18.60	18.60
0630	18.81	18.72	18.72
0700	23.87	24.70	27.82
0730	25.56	26.51	29.65
0800	24.91	26.36	29.56
0830	26.74	35.32	38.81
0900	26.75	35.48	39.02
0930	26.78	29.61	32.88
1000	26.77	29.62	32.86
1030	26.77	29.53	32.84
1100	26.77	26.78	29.94
1130	26.79	26.81	29.98
1200	34.07	29.41	32.67
1230	34.06	29.35	32.59
1300	34.04	27.45	30.55
1330	25.97	26.52	29.53
1400	25.97	25.56	28.55
1430	25.97	25.74	28.74
1500	25.97	25.74	28.74
1530	25.97	25.56	28.55
1600	25.88	25.70	28.76
1630	34.03	30.88	34.05
1700	34.03	35.04	38.35
1730	34.02	35.03	38.34
1800	25.97	30.85	34.04
1830	25.96	25.74	28.78
1900	25.96	25.55	28.58
1930	24.41	19.00	19.00
2000	24.41	18.86	18.86
2030	24.41	19.00	19.00
2100	24.41	35.00	38.32
2130	34.00	35.00	38.30
2200	34.00	35.00	38.34
2230	34.00	25.74	28.78
2300	24.48	25.74	28.81
2330	19.07	24.69	27.74
2400	18.81	24.26	27.28

Prices are determined for every half-hour in each twenty-four hour period. Prices are in pounds per megawatt-hour, rounded to two decimal places. To convert prices to pence per kilowatt-hour the decimal point should be moved one place to the left, eg £16.86/MWh becomes 1.686p/kWh. Provision for the determination of pool prices is made in the Pooling and Settlement Agreements which govern the operation of the electricity pool in England and Wales. The Pool Purchase Price is the basis of the majority of payments made to generators in respect of electricity traded through the pool. The calculation of pool prices is a highly complex process the product of which is subject to revision or correction (and sometimes major alterations) until final pool prices are determined approximately twenty-four days after the day of trading. Accordingly, due to the possibility of their revision and/or correction, no reliance should be placed upon provisional pool prices for any day being the same as final pool prices for that day. Final pool prices are also capable of revision. Pool Selling Price is the price paid by purchasers of electricity under the pool trading arrangements. It is dependent upon the determination of Pool Purchase Price. Further information on pool prices is provided on behalf of the Pool by NGC Settlements Limited. Anyone wishing to receive such information should telephone 0602-456729 between 8.30am and 5.15pm Monday to Friday. ©NGC Settlements Limited

A new line for selling insurance

Richard Lapper reports on the industry's increasing use of direct sales by telephone

NEWS THIS week that Rollins Hudig Hall, one of the world's biggest insurance brokers, and General Accident are joining forces to launch SelectDirect, a new telephone-based service to sell home and motor policies, has served to signal the growth in so-called "direct" insurance business.

The new venture is one of a number by UK insurance companies and brokers in recent months. It responds to the inroads into the motor insurance market made by direct writers in the last two years. Direct writers sell insurance through a combination of telephone sales and mass media advertising, bypassing the broker, the industry's traditional middle man.

By the end of this year nearly two million motorists will be insured by the three biggest direct writers – Direct Line, Churchill, and The Insurance Service.

Direct Line, launched in 1986, confidently expects to be the biggest motor insurer in the country by the end of the year and is making handsome profits for its parent, the Royal Bank of Scotland.

Churchill, launched by Switzerland's Winterthur, in 1989, says it is now making profits, as is The Insurance Service, the direct writing subsidiary of Royal Insurance.

According to a survey to be published next month by GSR, the Loodoo research company, direct writers currently account for 20 per cent of the £6.1bn motor insurance market. GSR predicts that the market share of direct writers will rise to 40 per cent by 1998.

The managers of direct writing companies say that recent growth of direct sales indicates the public is increasingly prepared to buy insurance by telephone.

Mr Richard Hill, chief executive of TIS, says direct telephone sales are ideally suited for low margin insurance products such as motor insurance. "You wouldn't sell cheques or credit cards by a broker. Why sell motor insurance that way?"

SelectDirect's formation reflects an increasing recognition among brokers about the popularity of telephone sales.

RHH, whose US parent Aon Corporation took over Frank B Hall and its UK subsidiary Leslie & Godwin last year, is following in the footsteps of three other chains of telephone-based brokers: AA Insurance, Swinton Insurance, which is owned by Sun Alliance, and Safeguard.

But unlike these three competitors RHH does not intend to establish a network of high street branches, which it believes will add substantially to its cost base.

General Accident's involvement in the new venture reflects its commitment to telephone-based sales. Along with Eagle Star and Royal Insurance, GA is one of the three big UK composite (multi-line) insurers to have established its own direct writer. GA 1-2-1 now underwrites 17 per cent of General Accident's motor insurance book.

SelectDirect's formation reflects an increasing recognition among brokers about the popularity of telephone sales. RHH, whose US parent Aon Corporation took over Frank B Hall and its UK subsidiary Leslie & Godwin last year, is following in the footsteps of three other chains of telephone-based brokers: AA Insurance, Swinton Insurance, which is owned by Sun Alliance, and Safeguard

A fourth composite, Guardian Royal Exchange is also widely expected to follow suit within the next 12 months. GRE's subsidiary in the Irish Republic – PMPA Insurance – is a successful direct response company. Mr James Morley, finance director, acknowledges the trend towards direct sales in motor insurance. "It is more a question of when rather than whether although we have not reached a definitive view that the time is right."

Two other composite companies – Commercial Union and Sun Alliance – are also thought to be increasing the proportion of direct motor business.

Legal & General is also examining the possibility of a new direct insurer, while other direct writers include Prospero, the subsidiary of Provincial Insurance, Preferred, a subsidiary of Denmark's Topdanmark and Touchline, which is owned by GAN, the large French company.

Underwriters at Lloyd's of London – which has a 15 per cent share of the UK motor market – are also active in the market. Earlier this year Admiral, a service company managed by the Hayter Brockbank agency, began a direct operation in January from a new base in Cardiff.

Admiral aims to have between 45,000 and 70,000 policyholders by the end of the year, but according to Mr David Stevens, marketing manager, it is is focusing on relatively small "niches" such as drivers who are under 25 but have clean driving records.

By contrast, companies such as Direct Line, Churchill and The Insurance Service are aiming to win a much wider share of the market. Direct Line intends to attack the home insurance market. In the motor market, all are selective about the sort of motorist they will insure. Even so, Mr Hill says TIS is prepared to insure four out of five motorists.

Mr Martin Long, chief executive of Churchill, says the main thing is "we have not set out to be a niche player. We've set out to become one of the UK's largest motor insurers very rapidly. We plan to be big."

Russian oil joint venture partners in crisis meeting

John Lloyd in Moscow

THE PARTNERS in Russia's foremost joint venture in the vital oil sector meet today in the city of Raduzhny in the Tyumen region to decide whether or not to continue an increasingly fractious – and apparently unprofitable – relationship.

White Knights,a joint enterprise between the state-owned oil company Varyeganneftegas (50 per cent), the Phibro Energy subsidiary of Salomon Brothers (45 per cent), and Anglo-Suisse (5 per cent) has in little over two years produced some oil but seems to be drowning in irreconcilable differences between the main partners, Varyeganneftegas and Phibro.

The outcome of the last-ditch talks today will be closely watched by the oil majors, all of which are trying to establish toe-holds in the Russian market but none of which have made really major investments because of continuing confusion over the law, taxes and – above all – the attitude of Russian production companies and the government.

Phibro has alleged that the Russian side had threatened to halt payment of contracts, to stop payment of US workers on the site, to confiscate half of the production of the enteprise and stop efforts to obtain the necessary licenses and export tax exemptions.

Mr Robert Baker, a spokesman for the parent company Salomon, said earlier this month that "These steps,if taken, would destroy our investment, destroy the economic base of the project and cause it to close down". The company has warned the industry that if it feels itself forced to break off the two-year co-operation, it will endeavour to broadcast widely its version of the reasons for failure.

The US company has spent some $115m on the project, which presently produces 3,000 barrels of crude a day. Mr Robert Denham, chairman of Salomon, has told Mr Lloyd Bentsen, the US Treasury Secretary, that the action contemplated by Varyeganneftegas was "theft" and asked him to make clear to the Russians that the government's actions "are inconsistent with the fundamental premises of US economic assistance".

Phibro's investment represents probably the largest sum put into the Russian oil industry by a foreign company to date – though the feasibility study conducted off the coast of Sakhalin in the far east by a US-Japanese consortium including Shell and Mitsui is understood to have cost around $100m. The French oil company Elf-Aquitaine is also to make a medium-sized investment in the Volga region.

The failure of Phibro would be a major blow for foreign hopes that the Russians are willing to see foreign companies operate with relative freedom. All oil majors complain that they suffer from high and constantly changing tax rates and from a lack of interest from the Russian side in allowing profitable exploitation.

EC farm ministers close to new price package accord

By David Gardner in Brussels

AFTER THREE days of negotiations, EC agriculture ministers were last night close to agreeing a farm price package for this year, which in the view of the European Commission maintains the integrity of the radical reform of the Common Agricultural Policy decided last May.

Ministers were still battling, however, over the regime for "set-aside" – land to be taken out of production as one of the main means of reining in overproduction.

A compromise devised by the Danish presidency of the EC and the European Commission retains what Brussels regards as essential to safeguard the CAP reform, Commission officials claimed.

France had sought significant changes to the set-aside rules. It wanted a 50 per cent increase in compensation to cereal and oilseed farmers.

A more likely outcome last night seemed between 25 and 30 per cent – an increase of Ecu12 per tonne rather than Ecu20, the rise sought by Paris.

France linked this demand to the EC-US agreement on oilseeds reached last November, which staved off a trans-Atlantic trade war and in principle settled most of the farm chapter of the long-stalled Uruguay Round to reform world trade rules.

France, along with Ireland, also wants to raise the weight limits on beef carcasses eligible for subsidised stockpiling, reduced under CAP reform to help cut back the EC's 1.1m tonnes beef mountain.

The Commission was still holding the line last night on this demand, arguing that what had been agreed under last year's reform was already manifestly insufficient to rein in beef overproduction.

The UK was also resisting a Commission proposal to increase the standard 15 per cent set-aside requirement, on a five year rotational basis, to 20 per cent in the case of land which is not rotated.

Brussels yesterday agreed to reduce the fixed set-aside requirement to 18 per cent, but only in areas where less nitrate fertilizer is used, under a regime agreed in 1991.

The Commission reckons the net result in production terms would be the same.

Mr John Gummer, UK agriculture minister, argues that the increased fertility resulting from rotational fallowing of land reduces output by less than fixed set-aside.

"Both systems have disadvantages but the Commission dwells on one of them," he said, referring to Brussels' concern about farmers setting aside their most marginal land.

"All our experience shows that these two systems net off," Mr Gummer added.

The Commission maintains that while this has traditionally been the case, advances in fertilizer and pesticide technology, along with geoetic improvements in seeds, have all but elimnated the yield differences between cootinuously planted areas and land revitalised by fallowing.

True to their tradition of all-week, all-night negotiation on micro-adjustment of CAP rules to bolster national farm interests, the agriculture ministers looked set to reach a denouement late last night or in the early hours of this morning.

After last May's epic negotiations of the CAP reform, it had been fondly thought that no more than management and tinkering would be needed. The Commission now realises that it has a battle on its hands to make the reform work.

● Bulgaria expects to lose tens of millions of dollars as a result of a ban on meat and livestock exports imposed by the government after an outbreak of foot-and-mouth disease, Reuter reports from Sofia.

Silver demand exceeds output in 1992

By Laurie Morse in Washington

WORLD SILVER demand outstripped production and other new supply in 1992 for the third consecutive year.

The deficit may have begun to support prices, according Mr. Jeffery Christian, who presented the fourth annual World Silver Survey to New York analysts yesterday.

Published by the Washington-based Silver Institute, the survey was prepared by the research firm CPM Group, of which Mr. Christian is a managing director. Despite the bullish tone contributed by gradually rising demand for silver, however, other fundamental factors – including large world stocks – overhang the silver market.

Silver prices continued a decade-old decline in 1992 and silver extraction, which is often a by-product of copper, zinc, and other mining failed to respond to lower prices.

Total silver supply rose 1.8 per cent to 501.7 m ounces in 1992, while silver use for fabricated products rose 2.0 per cent to 590.3m ounces, a gap of 88.6m ounces. Supply gains came from a 1.3 per cent increase in mine production, and a 3.0 per cent increase in secondary supplies.

A decline in silver use in the US, Japan, and other industrialised countries last year was more than offset by rising demand in the countries of Asia, particularly India.

The report projects fabricated silver demand to rise 5.9 per cent in 1993, to 625.0m ounces and new supply to drop 4 percent to 481.8m ounces.

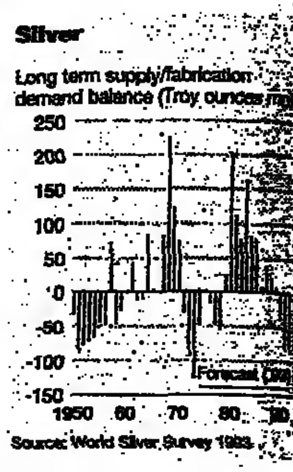
Although secondary sources of silver will continue to increase this year, the survey projects mine production, excluding countries with non-market economies, to decline 6.3 per cent to 339.8m ounces.

Mine output in the US, Canada and Peru is forecast to fall, while Mexico, the world's largest silver producer, is expected to continue production at about 65m ounces this year.

While China was the biggest buyer of gold last year, ithas had little influence on world silver statistics, Mr. Christian said.

Silver

Long term supply/fabrication demand balance (Troy ounces m)



Source: World Silver Survey 1993

Supreme Court's sword over Comibol

Chris Philipsborn on a judgement crucial for foreign investment in Bolivian mining

Bolivia's Supreme Court is expected to rule shortly on the legality of joint ventures between two private companies and Comibol, the state mining corporation. The decision will be watched closely by the country's mining industry since it may put the final nail in the coffin of Bolivia's attempts to attract foreign investment to its beleaguered public mining sector.

The private companies whose joint venture deals with Comibol are being scrutinised by the Supreme Court are Comineca, a subsidiary of Specialty Metals of the US, which made a bid for the Tasna bismuth/gold mine, and Mineracao Taboca, a subsidiary of Brazil's Paranapanema, which wishes to exploit the Kenko tin tailings of the Catavi-Siglo XX mine.

Neither company has been able to start operations because of union opposition but it had been hoped that a new government after general elections on June 6 would have dealt with the issue and cleared the way for work to begin. It is now possible, however, that an unfavourable decision by the Supreme Court could annul the contracts altogether. In the mining industry it is believed that this may well be the likely outcome.

The difficulty with both contracts is the failure of the Bolivian government to issue supreme decrees to ratify each joint venture – necessary because Comibol is state-owned. The mining unions took the matter to court after they had discovered that the proper procedures had, allegedly, not been followed.

The government subsequently tried to issue backdated decrees but the attempt was discovered and blocked. This is the latest in a series of blunders by the government of President Jaime Paz Zamora which have done little to foster confidence in the country's public mining sector.

The real danger for the country's mining industry is clearly spelled out by Mr Armundo Guzman, Comibol's new executive director, who thinks that a decision against the existing joint venture contracts would be "crazy."

"It would stop all foreign investment from coming to Bolivia," he says.

Mr Guzman believes that the government has acted within the framework of the constitution. Several industry figures are not so certain.

A negative ruling from the court would be a severe blow not just for private investment but for Comibol itself. Mr Guzman, who came to the corporation in January, says the group might have to close all but one of its mining centres by the year's end. Comibol has made a loss of over $672m since 1980 and has been hard hit by the fall in the international market price for base metals, particularly zinc.

The collapse in the International Tin Council buffer stock operation in 1985 convinced Comibol to shift the bulk of its production from tin to zinc, but it has failed to secure the long-term contracts which have shielded some private Bolivian zinc producers from the price slide.

Already, San Vincente, a zinc-silver mine, and San Jose, a lead-silver mine, have closed. Mr Guzman says others due for closure shortly include Unificada, a silver-zinc mine, and Colquiri, a tin-zinc mine. The only Comibol mine likely to escape the cuts is Huanuni, which produces high grade tin ore destined for the corporation's Vinto smelter.

Quite apart from the closure of the corporation's mines, however, perhaps the strongest indictment of this government's handling of the public sector mining industry is that, under an agreement with unions, all workers employed in Comibol mines which have ceased production will continue to receive full pay and benefits indefinitely, thus greatly reducing the corporation's ability to cut costs and improve efficiency.

Comibol now finds itself in a Catch 22 situation which may be further aggravated by the pending Supreme Court decision. The corporation has an increasing stockpile of "dirty" zinc ores heavily contaminated with antimony, which it cannot sell. Its productive mines are fast running out of high grade ores and virtually no new reserves have been developed. Low grade reserves can be exploited only if there is an upturn in zinc prices, which remains unlikely.

The corporation is therefore trying to switch production back to tin, but it is unable to do this, or to develop new reserves, without foreign investment. This is precisely why the prospect of an unfavourable decision by the Supreme Court strikes fear into the hearts of Comibol executives, since it would, in the words of one industry observer, "worsen the already tarnished image of the government and Comibol with foreign investors" and condemn the remainder of the corporation's mining operations to indefinite closure.

According to industry sources, Comibol has over 2,000 ore deposits. This fact alone will ensure that foreign and private capital will continue to take an interest in joint ventures with it. But the state-owned corporation's great handicap has been its high political profile and inescapable links to the government of the day.

Comibol can only continue hoping for an enlightened administration which will allow it the freedom fully to exploit its remarkable potential.

La Rosa, wholly owned by Bolivian mining group Emusa and individual entrepreneurs has signed an exploration joint venture Billiton, part of the Royal Dutch Shell oil group. Exploration work is expected to start in the next few weeks. The contract covers the Don Mario ore body in tropical eastern Bolivia. Preliminary exploration, including bore holes, have revealed an estimated 7m tonnes at ore reserves in total. The ore body is a polymetallic mix of copper, gold and silver. The contract should have a duration of 2 to 3 years, with production starting in up to 6 years. Shell has had an offer for Billitoo from Gencor, the South African group, but Emusa believes the La Rosa deal will not be affected.

● Pan-Andean Resources, a British quoted company, was yesterday signing a major oil exploration joint venture with YPFB, the Bolivian state hydrocarbons group. Mr John J. Teeling, Pan-Andean chairman, said the joint venture covers 1.39m hectares in the tropical Chapare region in central Bolivia. The contract is for 30 years.

Sugar price down further despite lower Cuban crop

FINAL CONFIRMATION that Cuba's sugar crop will be only 4.2m tonnes compared with last year's 7m tonnes did not prevent a further decline in New York raw sugar prices writes David Blackwell.

In late trading yesterday the July contract was down 0.63 at 11.15 cents a lb – well off the high of 13.26 on May 17.

The fall came in spite of Monday night's announcement from Cubazucar, which put the outcome of the troubled harvest well below all recent trade estimates. Czarnikow, the London trade house, last week estimated Cuban production at 5.5m tonnes, a figure matched this week by E.D. & F. Man, also of London.

Production in Cuba, tbe world's biggest exporter, has been hit by bad weather and problems with the country's crumbling infrastructure.

Falls in production in Cuba, Thailand and India have led to early predictions of a world surplus this year being changed to predictions of a deficit, averaging around 2m tonnes below consumption.

This has been enough to drive prices sharply higher after a flat period between last September and February, when nearby New York traded between 8 and 9 cents a lb.

However, the market has eased back recently as physical demand for sugar has not been evident, partly because of the high prices.

WORLD COMMODITIES PRICES

MARKET REPORT

On the London bullion market **GOLD** failed to build on overnight gains in New York, and lost ground on trade selling in Europe. Dealers said that the US funds did not seem interested in buying in New York, even on tha dips down to $370 a troy ounce. Without fund buying, a bout of trade selling in Europe was enough to weaken the price. Three-month **COPPER** hit profit taking and technical resistance between $1,850 and $1,860 a tonne on the LME, and prices eased. Technically, the market is still trading within a band between $1,820 and $1,850, dealers said. **ALUMINIUM** perked up in late kerb trade, aided by news that unions involved in Alcoa and Reynolds Metals talks had voted to authorise possible strikes. But traders say a strike is unlikely, and as hedge cover has been put in place, the market is more likely to ease if new labour contracts are agreed. London **COCOA** futures continued to drift in a narrow band with tha market still hovering just above a recent seven-month low. There was little reaction to E.D. & F. Man's increased deficit forecast for 1992-93 to 124,000 tonnes from a March estimate of 118,000 tonnes.

Compiled from Reuters

London Markets

SPOT MARKETS		
Crude oil (per barrel FOB)(Jul)		+ or -
Dubai	$15.88-5.94z	-.145
Brent Blend (dated)	$18.08-8.10	-0.10
Brent Blend (Jul)	$18.36-8.38	-0.10
W.T.I (1 pm est)	$19.78-9.81z	-0.09
Oil products (NWE prompt delivery per tonne CIF)		+ or -
Premium Gasoline	$209-211	
Gas Oil	$169-170	-2
Heavy Fuel Oil	$67-69	-1
Naphtha	$164-165	-0.5
Petroleum Argus Estimates		
Other		+ or -
Gold (per troy oz)♣	$375.45	-1
Silver (per troy oz)♣	456.5c	-3
Platinum (per troy oz)	$388.00	+3
Palladium (per troy oz)	$119.60	+1.6
Copper (US Producer)	88.0c	
Lead (US Producer)	34.63c	
Tin (Kuala Lumpur market)	13.69r	+0.01
Tin (New York)	250c	
Zinc (US Prime Western)	62.0c	
Cattle (live weight)†	142.58p	+2.22*
Sheep (live weight)†♠	138.94p	+1.78*
Pigs (live weight)†	91.94p	+0.46*
London daily sugar (raw)	$293.5	+3.8
London daily sugar (white)	$292.0	+6
Tate and Lyle export price	£302.0	+1
Barley (English feed)	Unq	
Maize (US No. 3 yellow)	£166.5	
Wheat (US Dark Northern)	Unq	
Rubber (Jun)♥	59.25p	
Rubber (Jul)♥	59.50p	
Rubber (KL RSS No 1 May)	208.5m	+0.25
Coconut oil (Philippines)§	$445y	-5
Palm Oil (Malaysian)§	$365u	+2.5
Copra (Philippines)§	$285u	
Soyabeans (US)	£176z	-0.5
Cotton "A" Index	59.85c	
Wooltops (64s Super)	362p	

£ a tonne unless otherwise stated. p-pence/kg. c-cents/lb. r-ringgit/kg. y-Aug/Sep u-Jun.z-July.. v-Oct ♥London physical. §CIF Rotterdam. ♣ Bullion market close. m-Malaysian cents/kg.♠Sheep prices are now live weight prices * change from a week ago, provisional prices.

SUGAR – London FOX			($ per tonne)	
White	Close	Previous	High/Low	
Aug	284.50	294.70	297.00	284.50
Oct	284.50	294.70	287.50	284.50
Dec	291.00	295.90	281.00	
Mar	285.50	296.00	291.20	285.50
May	290.00	292.00	295.90	290.00
Aug	296.00	297.00	301.00	296.00
Oct	292.00	298.10	292.00	

White 1125 (837) Paris- White (FFr per tonne): Aug 1581.24 Oct 1582.97

CRUDE OIL – IPE			$/barrel	
	Latest	Previous	High/Low	
Jul	18.37	18.49	18.49	18.35
Aug	18.50	18.63	18.59	18.48
Sep	18.63	18.72	18.68	18.61
Oct	18.73	18.85	18.73	
Nov	18.82	18.87	18.82	
Dec	18.84	18.94	18.84	
Jan	18.84	18.90	18.84	
Feb	18.83	18.89	18.83	
IPE Index	18.42	18.42		

Turnover 14103 (25448)

GAS OIL – IPE			$/tonne	
	Close	Previous	High/Low	
Jun	168.75	169.75	170.00	167.50
Jul	170.25	170.25	170.60	168.75
Aug	172.00	172.25	172.25	171.00
Sep	174.25	174.50	174.25	173.25
Oct	177.50	177.75	177.25	176.25
Nov	179.50	180.00	179.50	178.75
Dec	181.50	182.00	181.50	180.50
Jan	182.00	182.50	182.00	181.25

Turnover 12000 (17875) lots of 100 tonnes

WOOL

The selling season in Australia is in its final weeks and prices are showing no signs of slipping back to recent lows. Finer merino fleece, which led the recent rise, showed a dearer tendency again this week, after last week's pause. Demand for other wools was good at firm prices, and the overall Australian Wool Corporation market indicator had recovered 9 cents by May 26 to 463 cents a kg., only 2 cents short of its peak two weeks before.

COCOA – London FOX			£/tonne	
	Close	Previous	High/Low	
May	643	637	642	
Jul	665	654	666	661
Sep	681	680	681	677
Dec	702	700	701	696
Mar	721	720	721	719
May	734	735	734	
Jul	749	749	751	749
Sep	765	762	766	763

Turnover: 3449 (2927) lots of 10 tonnes
ICCO indicator prices (SDRs per tonne). Daily price for May 25 698.10 (697.04) 10 day average for May 26 698.13 (700.72)

COFFEE – London FOX			$/tonne	
	Close	Previous	High/Low	
May	919	899	920	908
Jul	934	913	940	925
Sep	936	922	943	929
Nov	946	930	948	941
Jan	949	938	951	943
Mar	956	938	952	
May	963	945	959	

Turnover: 3600 (2650) lots of 5 tonnes
ICO indicator prices (US cents per pound) for May 25 Comp. daily 55.63 (56.27) 15 day average 53.84 (53.65)

POTATOES – London FOX			£/tonne	
	Close	Previous	High/Low	
Mar	102.5	-	102.5	
Apr	101.8	95.5	101.8	97.0
May	111.0	105.0	111.0	107.0

Turnover 359 (12) lots of 20 tonnes.

SOYAMEAL – London FOX			£/tonne
	Close	Previous	High/Low
Aug	142.30	-	142.30
Oct	144.80	-	144.80

Turnover 20 (475) lots of 20 tonnes.

FREIGHT – London FOX			$10/index point	
	Close	Previous	High/Low	
Jun	1475	1500	1500	1475
Jul	1340	1365	1360	1335
Oct	1400	1418	1420	1400
BFI	1642	1640		

Turnover 150 (275)

GRAINS – London FOX			£/tonne	
Wheat	Close	Previous	High/Low	
Jun	138.75	138.50	138.75	138.50
Nov	108.55	108.65	108.55	108.40
Jan	111.45	111.45	111.45	111.20
Mar	113.90	113.90	113.90	113.65
May	116.05	116.00	116.05	115.80
Barley	Close	Previous	High/Low	
Sep	105.95	-	106.15	
Jan	110.65	110.90	110.65	
Mar	112.15	-	112.15	

Turnover: Wheat 289 (255), Barley 53 (11). Turnover lots of 100 Tonnes.

PIGS – London FOX			(Cash Settlement) p/kg
	Close	Previous	High/Low
Jun	110.8	110.5	110.8
Jul	103.8	103.5	103.6

Turnover:7 (27) lots of 3,250 kg

LONDON METAL EXCHANGE				(Prices supplied by Amalgamated Metal Trading)		
	Close	Previous	High/Low	AM Official	Kerb close	Open interest
Aluminium, 99.7% purity ($ per tonne)						Total daily turnover 33,707 lots
Cash	1123.5-4.5	1117-8		1124.5-5.0		
3 months	1147.5-8.0	1141-2	1148/1135	1147-7.5	1138-9	191,286 lots
Copper, Grade A (£ per tonne)						Total daily turnover 53,341 lots
Cash	1185.5-6.5	1190.5-1.5	1174/1174	1185-6		
3 months	1200-1	1208-7	1201/1191	1200-1	1201-1.5	210,643 lots
Lead (£ per tonne)						Total daily turnover 3,168 lots
Cash	262.5-3.5	260.5-1.5		263.25-3.5		
3 months	272.75-3.0	270.5-1.00	266/264	272.5-3.0	266-7	20,191 lots
Nickel ($ per tonne)						Total daily turnover 7,183 lots
Cash	5660-70	5625-35		5660-5		
3 months	5730-5	5690-5	5725/5660	5727-8	5705-10	48,368 lots
Tin ($ per tonne)						Total daily turnover 909 lots
Cash	5405-10	5395-405		5415-20		
3 months	5465-70	5455-60	5510/5500	5475-80	5500-10	9,234 lots
Zinc, Special High Grade ($ per tonne)						Total daily turnover 16,772 lots
Cash	955-6	957.5-8.5	953.5	959-60		
3 months	973-4	975-7	979/970	977-7.5	971-2	67,931 lots

LME Closing £/$ rate: SPOT: 1.5465 3 months: 1.5358 3 months: 1.5285 9 months: 1.5214

LONDON BULLION MARKET (Prices supplied by N M Rothschild)		
Gold (troy oz)	$ price	£ equivalent
Close	375.20-375.70	
Opening	378.30-378.80	
Morning fix	377.25	243.702
Afternoon fix	374.50	242.728
Day's high	378.60-379.10	
Day's low	373.90-374.40	

Loco Ldn Mean Gold Lending Rates (Vs US$)			
1 month	2.54	6 months	2.51
2 months	2.54	12 months	2.51
3 months	2.53		

Silver fix	p/troy oz	US cts equiv
Spot	294.05	455.50
3 months	298.15	458.70
6 months	302.00	462.00
12 months	310.90	471.35

GOLD COINS		
	$ price	£ equivalent
Krugerrand	374.50-377.50	242.00-244
Maple leaf	N/A	-
New Sovereign	88.0-92.00	57-59

TRADED OPTIONS

Aluminium (99.7%)	Calls		Puts	
Strike price $ tonne	Jul	Sep	Jul	Sep
1125	30	50	16	22
1150	17	36	28	33
1175	8	25	45	47
Copper (Grade A)	**Calls**		**Puts**	
1800	80	107	35	57
1850	53	81	57	80
1900	33	59	87	108
Coffee	**Jul**	**Sep**	**Jul**	**Sep**
900	47	74	13	36
950	20	48	35	60
1000	7	31	73	93
Cocoa	**Jul**	**Sep**	**Jul**	**Sep**
700	4	24	39	43
725	2	16	62	60
750		11	85	80
Brent Crude	**Jul**	**Aug**	**Jul**	**Aug**
1750	-	-	4	12
1800	-	-	7	22
1850	19	41	23	40

New York

GOLD 100 troy oz.; $/troy oz.				
	Close	Previous	High/Low	
May	375.2	378.5	0	0
Jun	375.3	378.7	378.3	374.2
Jul	376.3	379.3	0	0
Aug	377.4	380.7	378.8	376.2
Oct	379.2	382.5	380.9	378.5
Dec	381.0	384.3	382.5	380.0
Feb	382.9	385.9	383.0	382.1
Apr	384.3	387.9	384.0	384.0
Jun	388.0	389.3	387.5	388.3

PLATINUM 50 troy oz; $/troy oz.				
	Close	Previous	High/Low	
Jul	388.3	390.9	391.0	388.0
Oct	387.1	389.3	390.0	387.0
Jan	386.3	388.5	387.0	386.0
Apr	386.1	388.2	388.0	388.0

SILVER 5,000 troy oz; cents/troy oz.				
	Close	Previous	High/Low	
May	454.9	462.9	458.0	455.0
Jun	455.2	463.2	0	0
Jul	456.3	464.3	460.0	454.0
Sep	459.5	467.5	463.0	457.0
Dec	464.3	472.3	468.0	462.0
Jan	464.9	472.9	0	0
Mar	469.1	477.1	472.0	468.0
May	472.8	480.5	477.0	475.0
Jul	475.9	483.9	480.0	479.0
Sep	479.8	487.8	0	0

HIGH GRADE COPPER 25,000 lbs; cents/lbs				
	Close	Previous	High/Low	
May	82.30	82.00	82.50	82.00
Jun	82.00	82.05	82.30	81.90
Jul	82.20	82.35	82.80	82.00
Aug	82.50	82.60	82.40	92.40
Sep	82.75	82.85	83.25	82.75
Oct	82.95	83.05	0	0
Nov	83.35	83.35	0	0
Dec	83.50	83.60	83.90	83.50
Jan	83.65	83.73	0	0
Feb	83.65	83.85	0	0

CRUDE OIL (Light) 42,000 US galls $/barrel				
	Latest	Previous	High/Low	
Jul	19.77	19.90	19.89	18.75
Aug	19.98	20.10	20.07	19.94
Sep	20.09	20.21	20.15	20.07
Oct	20.16	20.27	20.20	20.15
Nov	20.21	20.30	20.21	20.17
Dec	20.22	20.31	20.28	20.21
Jan	20.22	20.31	20.22	20.22
Feb	20.31	20.31	0	0
Mar	20.30	20.30	0	0
Apr	20.20	20.29	20.21	20.20

HEATING OIL 42,000 US galls, cents/US galls				
	Latest	Previous	High/Low	
Jun	53.80	54.26	54.25	53.80
Jul	54.20	54.56	54.50	54.10
Aug	54.90	55.26	55.25	54.90
Sep	56.00	56.29	56.15	56.00
Oct	57.00	57.27	57.20	57.00
Nov	58.10	58.23	58.10	58.00
Dec	58.90	58.14	59.05	58.90
Jan	59.40	59.62	59.50	59.40
Feb	59.20	59.35	0	0
Mar	57.90	57.87	57.90	57.85

COCOA 10 tonnes;$/tonnes				
	Close	Previous	High/Low	
Jul	887	880	894	886
Sep	920	912	924	915
Dec	962	953	965	957
Mar	993	987	998	988
May	1013	1010	1031	1019
Jul	1036	1030	0	0
Sep	1059	1053	1055	1055
Dec	1091	1085	0	0
Mar	1125	1119	1119	1119

COFFEE "C" 37,500lbs; cents/lbs				
	Close	Previous	High/Low	
May	62.50	59.65	61.40	60.50
Jul	64.95	63.50	65.45	63.60
Sep	66.80	65.30	67.10	65.40
Dec	69.20	67.90	69.50	68.20
Mar	71.50	70.20	71.50	70.85
May	73.75	71.85	73.00	73.00
Jul	74.65	73.10	74.25	74.25
Sep	76.50	74.60	0	0

SUGAR WORLD "11" 112,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	11.12	11.78	11.79	11.11
Oct	11.30	11.86	11.80	11.30
Mar	10.99	11.20	11.20	10.99
May	10.90	11.08	11.09	10.90
Jul	10.80	10.99	10.85	10.80
Oct	10.74	10.93	0	0

COTTON 50,000; cents/lbs				
	Close	Previous	High/Low	
Jul	60.44	60.39	61.20	60.15
Oct	59.30	59.62	60.00	59.10
Dec	58.59	58.82	59.30	58.31
Mar	59.56	59.95	60.25	59.30
May	60.25	60.65	60.50	59.98
Jul	60.60	31.00	60.75	60.75
Oct	59.60	59.90	0	0

ORANGE JUICE 15,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jul	111.75	111.20	112.90	110.70
Sep	114.60	114.20	115.76	113.50
Nov	117.15	115.60	117.00	115.90
Jan	118.00	117.75	115.30	117.50
Mar	119.70	119.25	119.75	118.30
May	119.70	119.25	119.75	119.75
Jul	119.70	119.25	118.75	119.75
Sep	119.70	119.25	0	0

INDICES

REUTERS (Base:September 18 1931 = 100)			
May 26	May 25	mnth ago	yr ago
1677.5	1670.5	1673.0	1596.1

DOW JONES (Base: Dec. 31 1974 = 100)				
	May 25	May 24	mnth ago	yr ago
Spot	121.14	N/A	125.13	118.88
Futures	122.38	N/A	121.90	117.58

Chicago

SOYABEANS 5,000 bu min; cents/60lb bushel				
	Close	Previous	High/Low	
Jul	612/6	607/4	613/6	606/0
Aug	611/0	606/4	612/4	605/0
Sep	608/0	604/0	609/2	602/6
Nov	609/0	605/6	610/0	603/4
Jan	615/0	611/6	615/2	609/4
Mar	619/4	617/4	620/6	615/4
May	621/0	620/0	621/4	617/4
Jul	620/6	620/0	621/0	618/2

SOYABEAN OIL 60,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	21.64	21.49	21.67	21.49
Aug	21.77	21.62	21.80	21.63
Sep	21.90	21.74	21.90	21.75
Oct	22.02	21.86	22.04	21.88
Dec	22.24	22.08	22.26	22.10
Jan	22.34	22.17	22.34	22.19
Mar	22.52	22.36	22.56	22.42
May	22.65	22.52	22.65	22.58
Jul	22.77	22.60	0	0
Aug	22.75	0	0	0

SOYABEAN MEAL 100 tons; $/ton				
	Close	Previous	High/Low	
Jul	192.9	192.1	193.2	161.3
Aug	192.0	191.5	192.4	190.6
Sep	191.4	191.1	191.5	190.2
Oct	190.9	190.5	191.1	189.8
Dec	101.5	191.1	191.9	190.3
Jan	191.9	191.5	191.7	190.3
Mar	192.2	192.0	192.4	191.5
May	193.0	193.3	193.0	191.5

MAIZE 5,000 bu min; cents/56lb bushel				
	Close	Previous	High/Low	
Jul	226/0	224/6	227/0	223/4
Sep	231/0	229/6	231/6	228/4
Dec	237/6	236/6	238/4	235/2
Mar	245/0	243/6	245/4	242/6
May	249/6	248/4	249/6	247/6
Jul	253/2	252/0	253/6	251/4
Sep	248/4	249/0	0	0
Dec	248/4	248/4	248/4	247/4

WHEAT 5,000 bu min; cents/60lb-bushel				
	Close	Previous	High/Low	
Jul	289/0	288/6	290/0	287/2
Sep	292/0	292/0	293/0	290/0
Dec	303/2	303/4	304/2	302/0
Mar	309/2	310/0	310/4	308/0
May	309/2	310/0	311/4	309/2
Jul	306/2	309/0	309/2	306/0

LIVE CATTLE 40,000 lbs; cents/lbs				
	Close	Previous	High/Low	
Jun	75.300	75.600	75.575	75.250
Aug	73.500	73.550	73.775	73.425
Oct	74.250	74.275	74.400	74.075
Dec	74.175	74.175	74.325	73.975
Feb	73.750	73.725	74.025	73.700
Apr	74.850	74.700	75.000	74.800
Jun	71.850	71.750	72.200	71.800

LIVE HOGS 40,000 lb; cents/lbs				
	Close	Previous	High/Low	
Jun	52.600	53.025	53.350	52.600
Jul	51.675	51.975	52.300	51.450
Aug	49.600	49.900	50.050	49.275
Oct	43.750	44.175	44.350	43.650
Dec	44.950	45.130	45.550	44.850
Feb	45.000	45.150	45.200	44.850
Apr	43.625	43.750	43.625	43.625
Jun	48.600	48.900	0	0
Jul	48.600	0	0	48.800

PORK BELLIES 40,000 lbs; cents/lb				
	Close	Previous	High/Low	
Jul	42.200	43.050	43.000	42.075
Aug	40.375	41.125	41.150	40.350
Feb	41.400	41.825	41.825	41.175
Mar	40.400	40.750	40.900	40.400
May	41.500	42.025	0	41.500

Equity gains extended in steady trade

By Terry Byland, UK Stock Market Editor

A GOOD response to yesterday's £3bn auction of government bonds helped UK equities extend this week's recovery, although trading volume remained unexciting. Once again, it was left to a handful of selected stocks to provide the features as well as the backbone of the FT-SE 100 Index. A batch of large deals after the official close featured a 9 per cent stake in Trade Indemnity, the corporate insurer, sold at 47p a share, and also 5.8m shares in British Gas and large blocks of Prudential, Guardian Royal Exchange and GEC.

The early part of the session saw share prices moving narrowly, often responding to stock index futures. Equities turned firmer when the outcome of the gilt-edged auction was disclosed, although they waited for a clear lead from bond prices before edging higher. A further boost came when New York opened firmly, moving further above a testing level.

The stock market closed at the day's best, with the final reading of 2,846.9 on the FT-SE 100 leaving a gain of 9.2. While there was no rush of buying, Seaq volume increased in the final hour to record a daily total of 626.8m shares; Tuesday's 591.2m was worth £1.29bn in retail business.

Second line issues followed slowly in the wake of the blue chips. At the close, the FT-SE Mid 250 Index was 2.8 ahead at a new peak of 3,175.5. Non-Footsie business made up around 53 per cent of the day's Seaq business.

The success of the gilt-edged auction and firmness in sterling revived some of the more optimistic hopes for a reduction in UK base rates, in spite of yesterday's absence of change in German repurchase rates. But few UK market strategists expect a rate cut within six weeks or so; any hopes for an earlier cut are "thinly based", commented Mr Richard Kersley at BZW, who sees little economic evidence to support them.

Attention was also paid in the market to growing hints that Mr John Major plans to reshuffle the members of his government, perhaps this weekend.

Overall, however, strategists found little reason yesterday to reformulate their views on the outlook for UK equities. There was some relief that the gilts auction was now out of the way in a stock market where lack of institutional liquidity has become a significant problem. Rights issues now total around £5.5bn this year.

The Footsie is still rooted firmly in the middle of its trading range, with little indication yet that confidence in economic recovery has become strong enough to call for a rerating of equities. However, the lower end of the range, at around Footsie 2,790, is now seen as a more reliable basis for the market rebound when it comes.

The gloom overhanging the brewery sector deepened after the annual meeting of shareholders at Guinness disappointed traders. Store and consumer stocks tried to edge ahead at the close.

The Footsie was helped by firmness in the oil sector as both blue chips and second line energy shares benefited from a series of largely unrelated corporate developments. The banking and property sectors appeared to brush off the misfortunes of Speyhawk, the City of London developer which went into receivership this week.

TRADING VOLUME IN MAJOR STOCKS

	Volume 000's	Closing Price	Day's change
ASDA Group†	15,000	89½	-½
Abbey National†	2,800	415	-3
Albert Fisher	281	65	
Allied-Lyons†	1,300	527	-2
Amstrad	183	22½	
Anglian Water†	12,000	485	+8
Argos	232	311	+2
Argyll Group†	11,000	329	+14
Arjo Wiggins†	701	180	-1
Ass. Brit. Foods†	72	472	+1
Ass. Brit. Ports	91	421	+1
BAA†	852	751	+11
BAT Inds.†	39,000	419	+2½
BET	1,700	109	+4
BICC	2,400	385	-8½
BOC†	1,000	685	-2
BP†	8,100	312	+5½
BPB Inds.	1,400	231	-6
BT†	8,500	425½	-2
BTR†	4,200	604	+6
Bank of Scotland†	1,500	143	-1½
Barclays†	5,800	459	+2
Bass†	3,300	458	-4
Blue Circle†	2,000	239	-5
Booker	554	378	+5
Boots†	2,800	429	
Bowater†	1,900	492	+8
Brit. Aerospace	506	325	
British Airways†	3,800	311	+1
British Gas†	5,200	280	+1½
British Land	892	314	-2
British Steel†	4,900	100½	+½
Bunzl	354	126	+1
Burmah Castrol†	22	808	-1
Burton	2,700	85½	
Cable & Wire.†	2,100	747	-2
Cadbury Schweppes†	2,200	484	+3
Calor Group	2	237	
Carlton Comms.†	927	730	+6
Coats Viyella†	374	234	+2
Comm. Union†	1,800	581	+3
Cookson	438	202	+3
Courtaulds†	4,700	541	+19
Dalgety	410	431	+5
De La Rue†	572	851	-5
Dixons	383	213	-3
Eastern Elect.	155	472	+1
East Midland Elect.	261	805	
Eng China Clays†	1,200	425	-5
Enterprise Oil†	757	459	+3
Eurotunnel Units	131	412	+12
FKI	3,400	134	
Fisons†	853	167	-2
Foreign & Col. I.T.	978	224½	
Forte†	697	193	
Gen. Accident†	1,400	560	
General Elect.†	2,300	320	
Glaxo†	5,000	618	-6
Glynwed Intl.	26	302	+1
Granada†	2,500	398	+7
Grand Met.†	5,300	397	-6
GUS A†	95	1838	
GRE†	843	174	-1
GKN	283	444	-3
Guinness†	7,400	460	-7
HSBC (75p shs)†	3,000	631	
Hammerson "A"	485	340	+4
Hanson†	6,400	233	-½
Hanson Warrants	318	23½	
Harrisons Crosfield	454	180	
Hillsdown	3,400	147	
IMI	229	270	-5
ICI†	1,000	1287½	-½
Inchcape†	2,800	576	+15
Johnson Matthey	22	447	-1
Kingfisher†	2,100	574	-5
Kwik Save†	48	776	
Ladbroke†	2,300	181	+7
Land Securities†	1,800	695	+1
Laporte	512	815	+2
Legal & General†	1,500	474	+4
Lloyds Abbey	926	419	
Lloyds Bank†	3,900	540	
LASMO†	1,800	151	+6
London Elec.	321	471	+2
Lonrho	7,100	122	+4
Lucas	2,100	133	-½
MB Caradon†	502	307	-3
MEPC	885	445	
MFI	1,000	131½	-3½
Manweb	178	627	-1
Marks & Spencer†	5,700	334	
Midlands Elect.	482	473	+1
Morrison (Wm.)	110	168	-1
NFC†	1,800	284	
NatWest Bank†	4,200	472	+2
National Power†	1,800	335	+6
Next	621	183	-½
North West Water†	4,800	487	+7
Northern Elect.	157	510	-1
Northern Foods†	1,300	254	
Norweb	38	508	-1
Pearson†	470	443	-1
P & O†	814	601	-5
Pilkington	3,400	133	-1
PowerGen†	837	348½	+4
Prudential†	3,400	321	+2
RMC	885	738	+4
RTZ†	2,700	669	+18
Racal	306	187	
Rank Org.†	1,500	715	+6
Reckitt & Colman†	411	558	+16
Redland†	1,800	524	-1
Reed Intl.†	1,200	847	+1
Rentokil†	674	190	+4
Reuters†	1,100	1352	+44
Rolls Royce	7,000	144	-1
Rothmans†	265	100	-3
Ryl Bk Scotland†	2,200	286	-1
Royal Insurance†	2,800	280	+3
Saatchi	314	178	-1
Sainsbury†	1,500	475	+6
Scottish & Newc.†	595	454	
Scot. Hydro-Elect.†	688	335	+3
Scottish Power†	5,000	314½	+3
Sears†	1,400	98½	-1
Sedgwick	33	187	
Seeboard	60	504	
Severn Trent Water†	2,300	485	+10
Shell Transport†	2,300	614	+4
Siebe†	1,800	481	-1
Slough Ests	818	211	-4
Smith (W.H.) A	2,100	430	+2
Smith & Nephew†	1,300	142½	+1
SmKl Beecham†	2,400	471	+4
SmKl Beecham Uts.†	814	422	+4
Smiths Inds.	143	308	-3
Southern Elect.†	352	475	+4
South Wales Elec.	5	538	+1
South West Water	484	520	+12
South West. Elect.	22	481	
Southern Water	1,300	497	+16½
Standard Chartd.†	882	728	-1
Storehouse	487	204	+2
Sun Alliance†	1,000	325	+1
T&N	803	172	+4
TI Group†	804	330	+4
TSB†	2,800	184	-3
Tarmac	3,000	134	-2
Tate & Lyle†	733	359	
Taylor Woodrow	85	107	-4
Tesco†	5,400	213	+1½
Thames Water†	2,020	508	+7
Thorn EMI†	1,400	871	+15
Tomkins†	2,400	228½	+½
Trafalgar House	5,400	107½	-1½
Unigate	180	334	-1
Unilever†	1,500	1025	-3
United Biscuits†	1,400	404	-5
Utd. Newspapers	102	601	-2
Vodafone†	5,800	427½	+8½
Warburg (SG)	440	684	-6
Wellcome†	1,700	705	+3
Welsh Water	382	561	+10
Wessex Water	208	578	+9
Whitbread "A"†	820	477	+1
Williams Hldgs.†	2,700	314	+4
Wills Corroon	34	197	
Wimpey	176	175	-5
Wolseley	627	647	-11
Yorkshire Elect.	48	517	+1
Yorkshire Water	582	524	+9

Based on the trading volume for a selection of Alpha securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates an FT-SE 100 Index constituent.

Account Dealing Dates

*First Dealings:	May 10	May 24	Jun 7
Option Declarations:	May 20	Jun 3	Jun 17
Last Dealings:	May 21	Jun 4	Jun 18
Account Day:	Jun 1	Jun 14	Jun 28

*New time dealings may take place from 8.30am two business days earlier.

Reuters finds US support

ENTHUSIASTIC support for Reuters Holdings from the US led to a sharp rise in the share price of the news and electronic dealing group. There was added support ahead of a key foreign exchange dealers' meeting next week.

The UK market learned yesterday afternoon that Goldman Sachs had repeated its strong buy recommendation. New York-based Mr Eric Philo said the company had confirmed that its core foreign exchange business was improving and its new Dealing 2000-2 automated trading system was close to achieving 1,000 trades a day. Mr Philo predicts earnings per share of up to 88.2p and a share price as high as £17 within the next 12 months.

Also, dealers throughout the world are to meet in Helsinki next Thursday for an annual foreign exchange meeting expected to be bullish for Reuters. The shares, reacting to the US-quoted ADRs, jumped 44 to 1352p with 1.1m traded.

N West Water rises

North West Water's surprise move in proposing an enhanced scrip dividend at a level 50 per cent above the cash dividend equivalent, saw its stock price race ahead, triggering a general advance in the water sector as dealers quickly decided that other water companies may propose similar schemes.

Shares in North West, the first water company to report preliminary figures, jumped 7 to 487p on heavy turnover of 4.6m after the scrip news, pre-tax profits and 9 per cent increase in the dividend. Dividend increases averaging 9 per cent have been forecast for the sector by utilities specialists. Turnover was boosted by a block of 1.3m shares thought to have been sold in special ex-dividend form.

Some analysts, however, cast doubts on whether other water companies will follow the path of enhanced scrip offerings. "For companies such as North West which has an aggressive expansion programme this is a good move, but the only other water company which fits the bill is Thames," was the view of one analyst.

Thames shares rose 7 to 508p, but beavily underperformed smaller capitalised companies such as Southern, up 16½ at 497p and South West, reporting today, 13 higher at 520p.

Barclays boosted

Stockbroker Hoare Govett was the driving force behind the good showing by Barclays Bank shares. Hoare's banks team upgraded its current-year profits forecast from £350m to £550m, because of what it sees as a continuing improvement in the bank's operating performance.

"We see the bank's bad debts substantially lower this year," said Mr Steven Thorn at Hoare. He rates Barclays' shares "20 per cent cheaper than those of NatWest and with better dividend growth prospects," and told clients to switch out of NatWest and into Barclays.

Barclays' shares continued the rehabilitation which began after the group upset the market by halving the final dividend and reporting deeply disappointing results in March. The stock price, which plummeted to 392p after the dividend cut, touched 469p yesterday before coming off the top to close 2 firmer at 459p on keen turnover of 5.1m.

Courtaulds rebound

Relief that no rights issue arrived with the figures helped Courtaulds, the chemicals group, to put on a sprightly performance yesterday. The shares received added support from a merger announcement and lifted 19 to 541p.

The cash call rumour, which dominated trading in the stock on Tuesday, apparently sprang from comments by the company before it went in to closed season that the debt would hit £400m. Marketmakers who took the speculation seriously had gone short of the shares. When they realised Courtaulds had been over cautious and the debt was only £220m there was a scramble for stock.

The buying pressure was increased by an acceptable profit of £192.7m, a comforting statement and the news that Courtaulds is to merge its acrylics and viscose division with Hoechst of Germany, providing a competitive advantage in a very tight area of the industry.

RTZ, the world's biggest mining group, rose 18 to 669p after the company's announcement of an enhanced scrip dividend and an early 1993 interim dividend payment of 13.5p per share.

Analysts said the shares also received support from BZW and UBS but in the afternoon Lehman Brothers cut its 1994 forecast by £38m to £966m on the back of low copper price estimates. The house also slashed its eps estimate by 9p to 51p.

A one-for-one share split for BAT Industries resulted in the shares closing up 2½ at 419p in the new form. Very high turnover of 39m shares was linked to the company's enhanced scrip scheme offering shares in place of cash dividends.

Shares in Guinness reacted badly to comments made at the group's agm, and they closed 7 off at 460p. Drinks specialists said the warning of lower profits in the 1993 first half was largely known.

BP moved up 5½ to 312p on news of a £250m management buyout of one of the company's consumer products divisions and a good performance by oils in the US overnight. Shell rose 4 to 614p.

A buy recommendation from Kleinwort Benson drove Lasmo 5 higher to 151p. The broker rated the stock a "short-term trading buy," citing short term US interest as likely to increase in the run up to the full ADR listing expected next month. Kleinwort also highlighted the group's drilling operations in Colombia, adjacent to BP's Cusiana oil discovery as likely to heighten US interest in the shares.

Clyde Petroleum, up 3 more to 54p, continued to attract heavy two-way activity with big institutions said to be chasing the stock as a number of important drilling operations get underway. Clyde's current and future operations include drilling in Syria, Malaysia and the Yemen.

After lagging behind BT and Cable & Wireless for the past two sessions Vodafone raced ahead to close 8½ better at 427½p, on heavy turnover of 5.8m boosted by strong US buying.

A buy recommendation from Kleinwort Benson ahead of today's annual meeting boosted international trading group Inchcape. The shares jumped 16 to 576p, with volume reaching 2.3m. Williams Holdings bounced 4 to 314p, after NatWest Securities urgad investors to buy.

US buyers were active in Tiphook and the shares rose 12 to 311p. APV put on 4 at 97p, with S.G. Warburg said to have been positive.

News from Rolls-Royce that it expects little improvement in trading conditions over the next two years dented sentiment in the aerospace sector. The stock, sustained by bargain hunters, eased only a penny to 144p on 7m turnover.

Sentiment from Rolls-Royce weakened Smiths Industries, 3 lighter at 342p, and FR Group, which shed 4 to 258p.

British Aerospace fell on the Rolls-Royce statement but recovered to close unchanged at 325p. The £57.6m BAe said it was repaying for tha illegal government aid it received for its 1988 purchase of Rover was not as high as feared.

Pilkington eased a penny to 133p on turnover of 3.4m shares on worries of more troubling news following recent high-level suspensions at the company's US arm.

The resignation of Mr James Tyrrell as finance director of Abbey National and bis appointment as group finance director at London International Group saw Abbey dip 3 to 415p and LIG add 5 at 186p.

Reckitt & Colman was squeezed 16 higher to 558p on slim turnover. Paterson Zochonis, the branded soap manufacturer, rose 13 apiece in the "A" stock to 398p and in the ordinary to 448p after a small agency cross in the "A" shares to 397p.

MARKET REPORTERS:
Christopher Price,
Steve Thompson,
Joel Kibazo, Peter John.

■ Other statistics, Page 27

NEW HIGHS AND LOWS FOR 1993

NEW HIGHS (173). [illegible]

NEW LOWS (20). BRITISH FUNDS (2) Treas. 12¾pc '93, Treas. 13¾pc '93, AMERICANS (1) NYNEX, BANKS (1) ABN, BREWERS (1) Grand Met., BLDG MATLS (1) Chieftain, BUSINESS SERVS (2) Hays, REA, CHEMS (2) BOC, Brent, CONTG & CONSTRCN (1) Andrew Sykes, FOOD MANUF (2) Tate & Lyle, Do 7¼pc Prf., FOOD RETAILING (2) Low (Wm), Tesco, HEALTH & HSEHOLD (1) Haemocell, INV TRUSTS (1) Kleinwort Endowment Policy, MISC (1) Shanks & McEwan, PACKG, PAPER & PRINTG (1) St Ives, STORES (1) Boots.

FINANCIAL TIMES EQUITY INDICES

	May 26	May 25	May 24	May 21	May 20	Year ago	*High	*Low
Ordinary share	2208.5	2205.5	2193.6	2187.4	2186.9	2109.2	2299.5	2124.7
Ord. div. yield	4.23	4.24	4.26	4.25	4.26	4.38	4.52	4.07
Earning yld % full	6.13	6.15	6.14	6.13	6.14	6.42	6.38	5.79
P/E ratio net	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
P/E ratio nil	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gold Mines	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

*for 1993. Ordinary share index since compilation: high 2299.5 [illegible] - low 49.4 26/6/40. Gold Mines index since compilation: high [illegible] - low 43.5 26/10/71. Basis Ordinary share 1/7/35; Gold Mines 12/9/55.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	May 26	May 25	May 24	May 21	May 20	Year ago
SEAQ Bargains	27,434	27,891	28,746	33,158	28,241	27,257
Equity Turnover(£m)†	-	1286.2	1081.7	1434.5	1698.1	1280.6
Equity Bargains†	-	32,155	32,644	38,829	33,234	31,573
Shares traded (mil)†	-	529.3	507.8	618.3	616.2	467.8

† Excluding intra-market business and overseas turnover.

London report and latest Share Index
Tel. 0891 123001. Calls charged at 36p/minute cheap rate, 48p at all other times.

EQUITY FUTURES AND OPTIONS TRADING

THE derivatives sector traded firmly in response to the successful UK gilts auction and suggestions of a reduction in UK base rates, although volume remained thin, writes Joel Kibazo.

In futures, trading in the June contract on the FT-SE 100 Index opened at 2,844, just below its previous finish, and initially fell back to 2,836 on a sizeable selling order.

That done, the contract regained strength and moved ahead, boosted by the outcome of the gilts auction and the speculation on interest rate cuts.

A firm Wall Street ensured that June continued to move forward, although the absence of leading institutions from the day's main action meant that volume remained low.

Having reached the day's high of 2,857 just ahead of the official close, June finished at 2,854, up 10 from its previous close and 2 points above its fair value premium to cash of 5. Volume was 6,843 lots.

In traded options, turnover was also poor, reaching 25,795 contracts. Just over a third of the total was dealt in the index options, the FT-SE 100 option trading 6,644 and the Euro FT-SE option 3,275 lots.

Hanson was the busiest stock option on 2,023 lots transacted, with the August 260 calls the most active series. It was followed by Argyll at 1,204, with the majority of the trading done in the July 330 puts. ICI, Guinness and RTZ were also active.

FT-SE Actuaries Share Indices — THE UK SERIES

FT-SE 100	FT-SE MID 250	FT-A ALL-SHARE
2846.9 +9.2	3175.5 +2.8	1406.50 +8.59

	May 26	Day's change %	May 25	May 24	May 21	Year ago	Earnings yield %	Dividend yield %	P/E Ratio	Xd adj ytd
FT-SE 100	2846.9	+0.3	2837.1	2825.8	2812.2	2698.6	6.38	4.04	19.41	45.97
FT-SE Mid 250	3175.5	+0.1	3172.1	3168.4	3165.1	2798.3	5.89	3.86	21.72	38.10
FT-SE-A 350	1420.1	+0.3	1418.2	1411.1	1405.8	1325.2	6.27	3.95	19.88	21.61
FT-SE SmallCap	1614.98	+0.3	1610.87	1610.87	1607.88	-	4.39	3.53	32.37	20.01
FT-SE SmallCap ex Inv Trusts	1628.07	+0.3	1623.63	1623.63	1620.28	-	4.84	3.72	30.30	21.04
FT-A ALL-SHARE	1406.50	+0.6	1397.91	1397.91	1392.63	1310.87	6.15	3.93	20.37	21.15
1 CAPITAL GOODS(213)	991.54	+0.3	988.35	988.35	985.05	913.51	4.71	3.89	28.32	14.81
2 Building Materials(27)	1104.31	-0.3	1108.00	1108.00	1100.32	1087.28	4.58	4.40	28.79	18.28
3 Contracting, Construction(29)	972.28	-1.4	986.30	986.30	988.07	1044.34	1.86	3.37	80.00†	13.02
4 Electricals(15)	2950.34	+1.3	2913.68	2913.68	2916.21	2744.50	5.07	4.58	25.11	65.13
5 Electronics(37)	2683.12	+0.5	2670.98	2670.98	2660.78	1991.16	5.90	2.98	21.42	20.36
6 Engineering-Aerospace(7)	379.54	-0.8	382.78	382.78	384.65	383.66	‡	3.89	‡	5.13
7 Engineering-General(51)	561.00	+0.3	559.49	559.49	560.44	586.65	6.51	3.75	18.42	1.58
8 Metals & Metal Forming(11)	423.21	-0.9	427.22	427.22	422.93	375.30	3.67	2.91	41.27	2.29
9 Motors(18)	390.60	—	390.73	390.73	391.73	396.30	4.96	5.65	29.03	9.59
10 Other Industrials(18)	2073.07	+1.4	2044.90	2044.90	2032.56	1866.99	5.62	4.33	21.43	37.38
21 CONSUMER GROUP(234)	1631.60	+0.2	1628.03	1628.03	1620.88	1720.45	7.07	3.50	17.38	23.25
22 Brewers and Distillers(29)	1812.71	-0.5	1822.53	1822.53	1817.10	2207.60	8.92	4.04	13.61	30.03
25 Food Manufacturing(22)	1290.47	+0.9	1278.49	1278.49	1268.93	1279.87	1.58	3.92	15.93	22.09
26 Food Retailing(18)	2952.25	+0.9	2927.11	2927.11	2883.25	2886.91	8.65	3.54	14.66	38.84
27 Health & Household(29)	3597.91	-0.2	3603.92	3603.92	3591.25	4139.41	6.36	3.16	18.08	41.20
29 Hotels and Leisure(20)	1281.88	+1.6	1261.30	1261.30	1264.76	1419.15	6.75	4.58	18.52	25.51
30 Media(33)	1957.28	+0.9	1940.69	1940.69	1931.60	1648.62	5.09	2.63	24.30	23.43
31 Packaging and Paper(24)	844.21	+0.9	839.20	839.20	838.83	848.78	5.14	3.44	21.36	10.68
34 Stores(30)	1131.25	-0.5	1136.92	1136.92	1134.63	1117.01	6.54	3.18	19.71	16.55
35 Textiles(20)	800.85	+0.5	796.89	796.89	801.24	748.80	5.75	3.83	22.10	11.03
40 OTHER GROUPS(142)	1488.98	+1.3	1470.50	1470.50	1464.23	1337.36	1.71	4.27	15.73	18.18
41 Business Services(27)	1591.65	+2.0	1560.16	1560.16	1560.00	1487.22	6.02	3.17	20.12	14.38
42 Chemicals(23)	1409.74	+0.6	1487.67	1487.67	1495.08	1572.02	5.98	4.65	21.20	28.88
43 Conglomerates(11)	1452.08	+0.3	1447.80	1447.80	1447.75	1417.39	7.23	5.16	15.58	29.85
44 Transport(16)	2944.62	+1.1	2911.92	2911.93	2893.14	2729.78	6.15	3.86	20.05	42.52
45 Electricity(16)	1718.67	+0.9	1704.82	1704.82	1700.78	1305.22	12.61	4.22	10.20	29.90
46 Telephone Networks(4)	1773.77	+2.9	1723.59	1723.59	1701.89	1495.37	5.67	3.76	21.85	1.63
47 Water(13)	3368.55	+1.3	3325.12	3325.12	3311.69	2884.85	13.38	4.98	8.30	11.83
48 Miscellaneous(32)	2235.09	-0.4	2244.60	2244.60	2236.29	2102.87	7.44	4.57	16.18	42.81
49 INDUSTRIAL GROUP(589)	1436.56	+0.6	1428.03	1428.03	1422.12	1389.83	6.82	3.87	18.06	19.65
51 Oil & Gas(18)	2488.27	+1.3	2456.11	2456.11	2448.26	2217.38	5.61	4.40	22.62	48.01
59 "500" SHARE INDEX(607)	1529.37	+0.1	1519.11	1019.11	1512.98	1476.21	6.69	3.93	18.47	21.88
61 FINANCIAL GROUP(89)	1022.72	+0.3	1019.42	1019.41	1016.08	783.83	4.01	4.15	38.77	20.19
62 Banks(9)	1414.18	+0.5	1407.29	1407.29	1398.13	982.78	4.92	3.82	27.84	28.48
65 Insurance (Life)(6)	2012.37	+0.8	1995.63	1995.63	1984.42	1548.92	4.79	4.44	26.38	47.49
66 Insurance (Composite)(7)	622.70	-0.2	623.96	623.94	625.70	543.01	‡	5.00	‡	15.60
67 Insurance Brokers(10)	792.24	-0.2	793.14	793.74	793.62	999.60	7.19	4.60	18.62	14.24
68 Merchant Banks(6)	668.67	-0.4	671.70	671.70	671.86	511.92	1.03	3.28	11.94	4.71
69 Property(26)	871.83	+0.2	870.23	870.23	874.31	720.41	5.18	4.59	25.98	13.95
70 Other Financial(23)	358.02	-0.2	358.63	358.63	359.22	271.11	8.54	4.64	10.87	4.17
71 Investment Trusts(108)	1471.88	+0.4	1465.66	1465.66	1466.78	1259.82	2.23	2.80	44.83	16.49
99 FT-A ALL-SHARE(804)	1406.50	+0.5	1397.91	1397.91	1392.63	1310.87	6.15	3.93	20.37	21.15

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	2838.9	2833.2	2836.3	2843.0	2838.8	2837.6	2837.0	2839.7	2845.1	2846.9	2832.5
FT-SE Mid 250	3173.7	3171.2	3172.0	3173.3	3170.3	3170.1	3170.3	3171.4	3114.1	3175.5	3168.6
FT-SE-A 350	1416.8	1414.4	1415.6	1418.3	1416.8	1415.9	1415.7	1416.9	1419.2	1420.1	1414.1

Time of FT-SE 100 high: 16:30 ; low: 9:08

FT-SE Actuaries 350 Industry Baskets

Hourly	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous close	change
Construction	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Health & Household	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues. [illegible]

LONDON SHARE SERVICE

BRITISH FUNDS

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.
"Shorts" (Lives up to Five Years)					
Treas 12½pc 1993‡‡	100⅛	-1/16	103⅛	100⅛	12.38
Funding 6pc 1993‡‡	100		100¼	99⅛	6.00
Treas 13¾pc 1993‡‡	103⅞xd	-1/16	108⅛	103⅞	13.24
8¼pc 1994	101⅞		102⅛	101⅞	8.34
14½pc 1994‡‡	108⅛		109¼	106⅜	13.62
Exch 13½pc 1994	105⅞		109⅛	106⅞	12.63
Treas 10pc Ln 1994‡‡	104⅞xd		105⅛	104⅛	9.80
Exch 12½pc 1994	107⅛		110⅛	107⅛	11.60
Treas 9pc 1994‡‡	104⅛		105⅛	103⅛	8.86
12pc 1995	109⅛	+1/16	111⅛	108⅛	11.01
Exch 3pc Gas 90-95	95⅝		96⅛	94	3.14
10¼pc 1995	107⅝	+⅛	109⅞	107⅛	9.51
Treas 12¾pc 1995‡‡	114⅛	+⅛	116⅞	113⅝	11.17
14pc 1996	117⅛	+⅛	120⅝	111⅛	11.92
15¼pc 1996‡‡	121⅞	+⅛	125⅝	121⅛	12.51
Exch 13¼pc 1996‡‡	116⅞	+⅛	120⅛	116⅛	11.34
Conversion 10pc 1996	109⅞	+⅛	111⅛	108⅞	9.14
Treas 13¼pc 1997‡‡	119⅞	+⅛	122⅛	118⅛	11.18
Exch 10½pc 1997	111⅛	+⅛	113⅞	110⅛	9.45
Treas 8¾pc 1997‡‡	106	+⅛	108⅛	105⅛	8.25
Exch 15pc 1997	128⅛	+⅛	132⅛	127⅛	11.70
9¾pc 1998	109⅛	+⅛	112⅞	108⅛	8.90
Treas 7¼pc 1998‡‡	100⅛	+⅛	103⅛	99⅛	1.20
7¼pc 1998 A‡‡	100⅛	+⅛	101⅛	99⅛	7.21
Treas 6¾pc 1995-98‡‡	99⅛	+⅛	101	97⅛	6.84
Five to Fifteen Years					
Treas 15½pc '98‡‡	134⅛	+⅛	138⅛	133⅛	11.59
Exch 12pc 1998	119	+⅛	122⅞	118⅞	10.06
Treas 9½pc 1999‡‡	108⅛	+⅛	112⅛	108⅛	8.72
Exch 12¼pc 1999	128⅛	+⅛	124⅛	120⅛	10.18
Treas 10½pc 1999	113⅛	+⅛	117⅛	112⅛	9.24
Conversion 10¼pc 1999	112⅛xd	+⅛	117⅛	112⅛	9.07
9pc 2000‡‡	107⅛	+⅛	110⅛	106	8.39
Treas 13pc 2000	126⅞	+⅛	131	125⅛	10.27
10pc 2001	111⅝	+⅛	115⅛	109⅛	8.98
14pc '98-1	125⅞xd	+⅛	128⅛	125⅛	11.14
9¾pc 2002	110⅛	+⅛	114⅛	108⅛	8.81
8pc 2003‡‡	99⅛xd	+⅛	103⅛	97⅛	8.01
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS - Cont.

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BRITISH FUNDS - Cont.

Notes	Price £	+ or -	1993 high	1993 low	Yield (1)	Yield (2)
Index-Linked [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

OTHER FIXED INTEREST

Notes	Price £	+ or -	1993 high	1993 low	Yield Int.	Red.
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Continued on next page

LONDON SHARE SERVICE

AMERICANS

	Notes	Price £	+ or -	1993 high	1993 low	Mkt Cap£m	Yld Gr's
Abbott Labs		18xd	-⅛	20⅞	15⅞	15,984	2.4
Allegheny & W	♥	558p	-2	686p	398p	280.8	3.4
Amdahl		349p	—	591p	302½p	380.8	0.9
Amer Cyanamid		33⅛	-⅛	38⅝	21¼	2,986	3.1
Amer Express		18¾xd	—	19½	14⅞	8,783	3.5
Amer T & T		40⅛xd	+1	40⅞	33⅛	53,362	2.1
Ameritech		45½	-⅛	52⅛	45	20,369	5.0
BankAmerica		29⅞xd	-⅛	38⅛	27⅞	10,044	3.1
Bankers NY		40⅞xd	+⅛	61⅞	42⅛	3,737	4.2
Bell Atlantic		34⅞	—	38⅛	32¼	15,097	4.8
BellSouth		35½	-⅛	38⅞	32⅞	18,549	5.2
Bethlehem Steel	♥	12⅞xd	+⅛	13¾	13	1,171	-
Bowater		1392pxd	+16	1682p	1335p	594.4	1.8
CPC		27½xd	-½	34⅞	26	4,165	2.9
Cadiz Land Inc	♥	113p	—	118p	53p	—	-
California Engy		1350p	—	1479p	1096p	247.2	-
Chase Manhattan		19½xd	+⅛	24½	17⅞	3,043	3.9
Chrysler		28⅛xd	+⅛	28⅞	21¼	8,236	1.3
Citicorp		18¼xd	+⅛	20⅞	13⅛	6,671	-
Colgate-Palm		36⅞xd	+¼	45⅞	35¼	6,267	2.0
Cont'l Bank		1529p	+23	1677p	1278p	1,545	2.5
Dana		32⅞xd	+⅛	34⅞	29⅞	1,405	3.1
Data General		720p	-8	881p	583p	198.7	-
Decora Inds	♥	122p	-1	146p	106p	—	-
Dun & Brad		38½	+⅛	42⅛	37⅛	6,882	4.0
Eaton		68⅛	+⅞	69⅞	50⅞	1,954	2.5
Echlin		16⅛xd	+⅛	18⅞	15⅛	980.9	2.6
FPL		23⅞xd	—	27⅞	23⅛	4,348	0.8
Ford Motor		33⅛xd	—	39⅞	28⅞	16,290	1.9
Gen Elect		59⅞xd	-⅛	62⅞	53⅞	59,982	2.7
General Host	♥	591p	+6	723p	565p	-	5.0
Gillette		34⅛xd	+½	42⅞	31½	7,498	1.5
Hasbro		20⅞	—	20⅞	20⅞	1,819	0.7
Honeywell		24⅛xd	+⅛	24⅞	20⅞	3,331	2.6
Houston Inds		28¼	+⅛	33¼	28¼	3,723	6.8
Ingersoll-Rand		21⅞xd	+⅛	26	19⅞	2,385	2.0
Lockheed		38½	-⅛	42⅞	35⅛	2,423	3.4
Lowe's	h	2376p	-26	2410p	1573p	1,729	0.7

CANADIANS

BANKS

BREWERS & DISTILLERS

BUILDING MATERIALS

BUILDING MATERIALS - Cont.

BUSINESS SERVICES

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CONGLOMERATES

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ELECTRICITY

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ENGINEERING-AEROSPACE

ENGINEERING-GENERAL

ENGINEERING-GENERAL - Cont.

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FOOD RETAILING

HEALTH & HOUSEHOLD

HOTELS & LEISURE

HOTELS & LEISURE - Cont.

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INSURANCE COMPOSITE

INSURANCE LIFE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INVESTMENT TRUSTS - Cont.

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MEDIA

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SOUTH AFRICANS

MOTORS

STORES

PLANTATIONS

MINES

PACKAGING, PAPER & PRINTING

OIL & GAS

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FT MANAGED FUNDS SERVICE

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AUTHORISED UNIT TRUSTS

Guide to pricing of Authorised Unit Trusts

Compiled with the assistance of Lautro §§

INITIAL CHARGE: Charge made on sale of units. Used to defray marketing and administrative costs, including commission paid to intermediaries. This charge is included in the price of units.

OFFER PRICE: Also called issue price. The price at which units are bought by investors.

BID PRICE: Also called redemption price. The price at which units are sold back by investors.

CANCELLATION PRICE: The minimum redemption price. The maximum spread between the offer and bid prices is determined by a formula laid down by the government. In practice, most unit trust managers quote a much narrower spread. As a result, the bid price is often set above the cancellation price. However, the bid price might be moved to the cancellation price by the managers at any time, usually in circumstances in which there is a large excess of sellers of units over buyers.

TIME: The time shown alongside the fund manager's name is the time of the unit trust's valuation point unless another time is indicated by the symbol alongside the individual unit trust name. The symbols are as follows: (♥) - 0001 to 1100 hours; (♣) - 1101 to 1400 hours; (♠) - 1401 to 1700 hours; (♦) - 1701 to midnight. Daily dealing prices are set on the basis at the valuation point; a short period of time may elapse before prices become available.

HISTORIC PRICING: The letter H denotes that the managers will normally deal on the price set on the most recent valuation. The prices shown are the latest available before publication and may not be the current dealing levels because of an intervening portfolio revaluation or a switch to a forward pricing basis. The managers must deal at a forward price on request, and may move to forward pricing at any time.

FORWARD PRICING: The letter F denotes that the managers deal at the price to be set on the next valuation. Investors can be given no definite price in advance of the purchase or sale being carried out. The prices appearing in the newspaper are the most recent provided by the managers.

SCHEME PARTICULARS AND REPORTS: The most recent report and scheme particulars can be obtained free of charge from fund managers.

Other explanatory notes are contained in the last column of the FT Managed Funds Service.

§§ Life Assurance and Unit Trust Regulatory Organisation, Centre Point, 103 New Oxford Street, London WC1A 1QH Tel: 071-379-0444.

هكذا من الأصل

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

Smith & Williamson Unit Tst Mgrs (1600)F
1 Riding House St, London W1A3AS 07[illegible]

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
S & W American	6	262.5	262.5	275.5	-3.6	0.73
S & W Capital	0	118.0	118.0	124.5	+3.3	1.60
S & W Cash	0	100.82	100.82	100.82	+0.01	6.30
S & W European	5	116.7	116.7	117.1	+1.6	1.20
S & W Far Eastern	0	145.3	140.8	155.4		0.00
S & W Growth	5	124.7	128.4	133.7	+0.8	1.34
S & W Income	5	111.8	112.0	118.5	+0.5	4.59
S & W Magnum	5	122.5	122.5	131.5	+0.3	1.59
S & W Smlr Secs	5	313.5	320.1	338.7	+0.8	6.56
S & W Thoroughbred	5	141.5	141.5	152.1	+0.5	1.52

For Societe Generale Tracker Reinvest see Henderson

Sovereign Unit Tst Mngrs Ltd (1000)F
12 Christchurch Rd, Bournemouth 0202 298492

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Cash	1	49.69	45.89xd	50.18	+0.01	5.1
Charted Primance	5½	55.30	55.74	59.46	-0.04	0.8
Ethical	5½	52.37	53.34	56.74	+0.12	3.0
European Growth	5½	55.34	55.79	59.50	-0.31	3.6
Income	5½	51.80	61.45xd	54.68	-0.37	5.8
Intl Growth	5½	77.16	77.78xd	82.90	+0.31	3.0
Managed	0½	88.16	68.92	73.51	-0.34	3.8
UK Growth	5½	54.94	55.51	59.21	-0.56	4.8

Standard Life Tst Mgmt Ltd (0730)H
3 George St, Edinburgh EH2 2XZ 0800 393777

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Managed Acc	5¼	43.25	43.26	45.49	+0.2	1.71
UK Equity Gth Acc	5¼	57.22	58.27	61.30	-0.1	1.74
UK Eq High Inc Inc	6¼	34.48	34.48xd	36.82		3.94
UK Eq High Inc Acc	5¼	40.92	40.92	43.48		3.94
UK Equity Gen Acc	5¼	53.22	54.20	57.59	+0.2	2.31
UK Equity Gen Inc	5¼	40.25	40.99	43.56	+0.2	2.31
UK Larger Cos Acc	7.7½	392.8	307.7	309.0	+1.8	3.85
UK Larger Cos Inc	F.7½	278.0	282.3	308.4	+1.3	3.85
Gilt & Fxd Int Inc	5¼	29.58	25.63xd	31.34		0.00
Emerg Larg Cos Acc	F.7½	267.1	271.7	294.8	-0.8	1.48
Nth American Acc	5¼	41.40	41.75	44.36	-0.1	0.79
Far East Acc	5¼	54.94	54.94	58.38		0.14
European Acc	5¼	40.07	40.07	42.58	+0.5	1.20

State Street Unit Trust Mngmt Ltd (1400)F
20 Buckle Lane, London EC3V 9AD 07[illegible]-626 1909

	Init Charge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Global A	5¼	[illegible]	3.646	3.872	-0.055	1.70
US Equities (u)	5¼	$2.114	2.114	2.244	+0.06	0.80
Far East Equities (u)	5¼	Y245.8	247.0	262.3	+3.5	-
Japan Equities (u)	5¼	Y247.2	248.0	264.3	-3.7	-
FT Europe (u)	5¼	109.4	100.5	116.2	[illegible]	[illegible]

Robert Fleming Asset Mngmt Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Am Exempt	$807.39	816.51	-2.52	1.50
Gen Exempt	£151.77	154.97	+0.65	3.83
Jap Exempt	Y592.84	640.50	-1.10	0.93
Pacific Exempt	£154.45	156.09	-0.05	1.08
Contl Euro Exempt	£118.30	118.61	+0.06	2.34

Foreign & Colonial Unit Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Balanced Acc May 20	182.2	189.8	-0.8	3.58
Balanced Inc May 20	180.8	188.1	-0.8	3.59
Latin American Acc May 25	95.80	98.00	-4.8	1.64

Funds in Court*

	Bid Price	Offer Price	+ or -	Yield Gross
Capital May 14	549.78	554.90		3.72
Gross May 14	208.85	210.03xd		8.97
High Yield May 14	332.46	335.10		7.76

* Restricted to monies under Court control

Govett (John) Unit Mngmt Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Managed Exempt	108.63	110.80	1.8	3.93

Henderson Unit Trust Management Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Pensions Mngd	51.6	62.20xd	-0.10	2.73
Henderson 7II				
Ex European May 20	1270	1285		2.71
Ex Nth Amer May 20	1368	1408		1.54
Ex Pac Basin May 20	922	939		1.46
Ex Smlr Cos Inc May 20	1897	2005		4.31
Ex Smlr Cos Acc May 20	2033	2149		4.31

INVESCO MIM Management Ltd
Exempt Funds

	Bid Price	Offer Price	+ or -	Yield Gross
Asia & Australasia	£1.1230	1.1890xd		-
Far Eastern	£2.1950	2.1890		-
Intl Mngd P'folio(1909-11)	£1.4760	1.5710		-
Mngd Pens (Acc)	£0.8375	0.9123		-
North American	£2.4800	2.4890xd		-
Smaller Companies	£1.4080	1.4840xd		-
UK Core	£1.0029	1.0190xd		-

Lazard Brothers & Co. Ltd

	Bid Price	Offer Price	+ or -	Yield Gross
Property May 4	£1900.0	2100.6		7.80
Inc Gth Prp Feb 3	£1200.0	1400.0		8.98

Lazard Investors Ltd ‡
Exempt Funds

INSURANCES

OTHER UK UNIT TRUSTS

FT MANAGED FUNDS SERVICE

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Providence Capitol Life Assc. Co Ltd - Contd.

Provident Life Assoc Ltd

Provident Way, Basingstoke RG21 2SZ 0256 470707

Provident Mutual Life Assc. Assn.

Scottish Amicable

150 St Vincent St, Glasgow 041-248 2323

Sun Alliance Group - Contd.

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MANAGEMENT SERVICES

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CANADA (SIB RECOGNISED)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

FT MANAGED FUNDS SERVICE

● FT Cityline Unit Trust Prices are available over the telephone. Call the FT Cityline Help Desk on (071) 873 4378 for more details.

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Prudential Fund Managers (Jersey) Ltd						
PO Box 103, St Helier, Jersey						0534 70009
Prudential Currency Fd (Formerly Hambros Currency Fd)						
Income (A & B)	5	210.4	210.4	220.9	-0.3	4.25
Growth (C & D)	5	310.2	310.2	325.8	-0.3	5
Royal Trust Jsy Fd Mngt Ltd (1400)F						
PO Box 428, St Helier, Jersey						0534 27441
Govt Secs Fd.	4	58.45	58.45	58.78	+0.01	5.08
Standard Bank Fund Mgmt (Jersey) Ltd						
PO Box 583, St Helier, Jersey CI						0534 67587
International Bond	0	$-	15.78	15.78	+0.06	4.81
Sterling Bond	3	£-	9.012	10.15		7.88
Sterling Cap		£-	42.38	42.40		5.73
TSB Trust Funds (CI)						
PO Box 538, St Helier, Jersey						
TSB Offshore Investment Fund Ltd						0534 73494
Stg Deposit Class	3	102.01	102.01	105.07		5.00
Gilt 0 Fixed Interest	3	110.45	110.45	120.72		7.67
Blue Chip A Gilt Edged	5	59.63	60.31	63.48		3.59
International Bond	5	132.56	132.58	139.42		5.00
UK Equity	5	248.51	253.66	269.15		1.29
International Equity	5	174.03	176.53	185.82		0.37
Far Eastern	5	159.07	163.14	171.73		0.00
European	5	121.81	122.34	128.98		0.09
Pan American	5	334.45	338.11	355.91		0.00
TSB Gilt Fund Ltd						
Quarterly Share	3	108.46	105.06	110.46		7.74
Monthly Share	3	103.67	103.67	107.09		1.85

JERSEY (REGULATED)(**)

	Bid Price	Offer Price	+ or -	Yield Gross
Barclays Intl Funds				
Asian Selection Funds				
China	$9.742	10.255	+0.075	0.0
Hong Kong	$31.332	32.981	-0.008	0.4
Indonesia	$9.812	10.328	+0.047	0.0
Korea	$11.237	11.828	-0.091	0.0
Malaysia	$19.124	20.131	+0.358	0.0
Philippines	$11.599	18.825	+0.130	0.0
Singapore	$12.929	13.609	+0.174	0.0
Thailand	$19.538	20.567	-0.135	0.0
South East Asia	$25.002	26.560		0.0
US Dollar Liquidity	[illegible]	[illegible]	+0.007	0.0

	Init Chrge	Canc Price	Bid Price	Offer Price	+ or -	Yield Gr's
Banque Scandinave a Luxembourg SA - Contd.						
Scandinavian International Sicav						
UK Emerging Markets	6	$-	1.06	1.12	+0.01	-
Barclays Diversified Portfolio						
14 rue Aldringen L-1118						352 4798 [illegible]
IPB Deutschemark Reserve		DM-	91.29	-	-	-
IPB Sterling Reserve		£-	10.22	-	-	-
IPB Swiss Franc Reserve		SFr-	30.48	-	-	-
IPB US Dollar Reserve		$-	20.21	-	-	-
IPB European Bond		Ecu-	17.50	-	-	-
IPB North American Bond		$-	21.04	-	-	-
IPB Espana		Pta-	2754	-	-	-
IPB Europe		Ecu-	17.42	-	-	-
IPB Japan		$-	27.14	-	-	-
IPB Pacific Rim		$-	22.04	-	-	-
IPB United Kingdom		£-	10.85	-	-	-
IPB United States		$-	21.44	-	-	-
Barclays Inv Funds (Luxembourg)						
41 Avenue de la Gare L-1611						010 352 404344
Equity Funds						
European Equity $	5¼	£-	0.894	0.952	-0.001	0.7
Intl Equity $	5¼	£-	1.420	1.511	-0.011	0.5
North Am Eqty $	5¼	$-	34.80	36.15	-0.300	0.3
Pacific Eq $	4¼	£-	0.400	6.060	+0.015	0.6
UK Equity $	5¼	£-	1.094	1.164	+0.00	3.0
Bond Fund						
International Bond $	3½	$-	97.89	102.25	+0.501	5.5
CMI Asset Management (Luxembourg) SA						
203 route d'Arlon, L-1150 Lux						010 352 456825
CMI Managed Portfolio Investment Company (a)						
Safeguard Portfolio F		£-	1.227	1.307	-0.001	-
Growth Portfolio F		£-	1.108	1.180	-0.005	-
Enterprise Portfolio F		£-	1.065	1.135	-0.006	-
CMI Global Network Fund (a)						
Australasian Equity		A$-	12.890		+0.134	-
Benelux Equity		DM-	21.060		+0.321	-
Canadian Equity		C$-	10.053		+0.004	-
GE Asia Equity		$-	13.734		+0.242	0.95
French Equity		FFr-	50.387		+1.205	0.94
German Equity		DM-	17.989		+0.271	-
Iberian Equity		Pta-	755		-10	0.01
Irish Equity		I£-	4.355		+0.034	-
Italian Equity		L-	7069		-81	-
Japanese Equity		Y-	1400		+25	-
Nordic Equity		SKr-	45.079		-0.534	-
Swiss Equity		SFr-	30.373		-0.073	-
UK Equity		£-	6.541		+0.07	1.11

CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

Summers fails to curb yen

THE Japanese yen continued its powerful surge against the dollar in yesterday's European trading, pushing the US currency to a new historic low despite attempts by officials in Washington to curb the trend, *writes James Blitz.*

The Japanese currency has enjoyed a considerable bout of strength in the interval between the recent announcement of a larger-than-expected US trade deficit and today's trade talks between Tokyo and Washington, where US officials are expected to call for a stronger yen.

At the end of Wednesday's Tokyo trading, the yen had rallied to a historic high against the dollar of Y108.64 following a US Treasury report which underlined that a strong yen could curb the Japanese trade surplus.

As US trading opened, Mr Lawrence Summers, the Treasury undersecretary for International Affairs, watered down the impact of the report, saying that the US was not seeking an appreciation of the currency.

But this had little impact. The yen rose to a new historic high of Y108.40 before closing in London at Y108.60. The D-Mark also fell to a new all-time low against the yen of Y66.51 from a previous Y67.25

Mr Neil MacKinnon, chief currency strategist at Citibank in London, believes the yen will still have a strong upside after today's meeting. "Dollar/yen has Y100 written all over it," he said. He believes that the announcement of another rise in the Japanese trade surplus is inevitable in the next month, underpinning the Japanese currency.

Miss Wendy Nifflkeer, an economist at IBJ International in London, also believes the yen has a strong upside but that it could retrace in the summer as Japanese economic weakness haunts yen holders.

In Europe, attention focused on the peseta, which suffered a sharp fall following an allegedly poor performance by Mr Fellpe Gonzalez, the Spanish prime minister, in a pre-election tv debate. The peseta fell to a close of Pta77.88 from a previous Pta76.28. In the exchange rate mechanism grid, its divergence indicator fell dramatically from plus 55 per cent to plus 24 per ceut.

The fall might have been more dramatic had the D-Mark oot been weak. Yesterday, the currency lost ground against sterling, closing a full pfennig weaker at DM2.5225. It also closed more than a ¼ pfennig weaker against the dollar at DM1.6320.

Once more, the critical issue is that the D-Mark is weakening despite unchanged interest rate policy from the Bundesbank, which left its repo rate at 7.60 per cent yesterday.

Mr Hans Tietmeyer, the Buodesbank vice President, also failed to push the D-Mark up or German bond yields down with hawkish comments yesterday. Instead, the German currency dropped to minus 26 percent against its ERM divergence indicator, the lowest level its has been at since the Yes vote in Denmark.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu Central Rates	Currency Amounts Against Ecu May 26	% Change from Central Rate	% Spread vs Weakest Currency	Divergence Indicator
Portuguese Escudo	192.854	186.427	-3.33	4.31	56
Spanish Peseta	154.250	151.310	-1.90	2.79	33
Irish Punt	0.808828	0.081173	-0.92	1.77	43
Dutch Guilder	2.19672	2.19241	-0.20	1.03	12
Belgian Franc	40.2123	40.1802	-0.08	0.92	8
D-Mark	1.94964	1.95730	0.39	0.44	-23
Danish Krone	7.43679	7.49185	0.74	0.09	-32
French Franc	6.53883	6.59348	0.84	0.00	-44

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate.
(17/9/92) Sterling and Italian Lira suspended from ERM. Adjustment calculated by Financial Times.

POUND SPOT - FORWARD AGAINST THE POUND

May 26	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.5415 - 1.5495	1.5450 - 1.5460	0.40-0.39cpm	3.07	1.06-1.03pm	2.70
Canada	1.9425 - 1.9555	1.9535 - 1.9545	0.25-0.19cpm	1.35	0.58-0.45pm	1.05
Netherlands	2.8130 - 2.8320	2.8200 - 2.8300	¼-½cdis	-1.59	⅝-1⅛dis	-1.15

EXCHANGE CROSS RATES

May 26	£	$	DM	Yen	F Fr.	S Fr.	N Fl.	Lira	C$	B Fr.	Pta.	Ecu
£	1	1.546	2.523	167.6	8.488	2.260	2.825	2300	1.954	51.75	196.5	1.284
$	0.647	1	1.632	108.5	5.497	1.462	1.827	1488	1.264	33.47	127.1	0.831
DM	0.396	0.613	1	66.51	3.368	0.896	1.120	911.0	0.774	20.51	77.88	0.509
YEN	5.959	9.213	15.04	1000.	50.64	13.47	16.84	13707	11.64	308.4	1171	7.652
F Fr.	1.177	1.819	2.969	197.5	10.	2.659	3.324	2707	2.299	60.90	231.2	1.511
S Fr.	0.442	0.684	1.116	74.25	3.760	1	1.250	1018	0.865	22.90	86.95	0.568
N Fl.	0.354	0.547	0.893	59.40	3.008	0.800	1	814.2	0.692	18.32	69.56	0.455
Lira	0.435	0.672	1.097	72.96	3.695	0.983	1.228	1000.	0.850	22.50	85.43	0.558
C$	0.512	0.791	1.291	85.88	4.349	1.157	1.446	1177	1	26.48	100.6	0.657
B Fr.	1.932	2.987	4.875	324.3	10.42	4.367	5.459	4444	3.776	100	379.7	2.481
Pta	0.509	0.787	1.284	85.38	4.325	1.150	1.438	1170	0.994	26.34	100.	0.653
Ecu	0.779	1.204	1.965	130.7	6.016	1.760	2.200	1791	1.522	40.30	153.0	1.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100. Peseta per 100.

Long term Eurodollars: two years 4½-4⅜ per cent; three years 5-4⅞ per cent; four years 5⅜-5¼ per cent; five years 5⅞-5⅝ per cent nominal. Short term rates are call for US Dollar and Japanese Yen; others, two days' notice.

FINANCIAL FUTURES AND OPTIONS

POUND - DOLLAR

FT FOREIGN EXCHANGE RATES

Spot	1-mth.	3-mth.	6-mth.	12-mth.
1.5455	1.5418	1.5351	1.5265	1.5125

FT-SE 100 INDEX

	Close	High	Low	Prev.
Jun	2852.0	2857.0	2836.0	2844.0
Sep	2875.0	2877.0	2863.0	2867.0
Dec	2896.0			2888.0

Estimated volume 9182 (10170)
Previous day's open int. 49673 (50345)

* Contracts traded on APT. Closing prices shown.

MONEY MARKETS

Gloom on Germany

DEALERS in German interest rate futures reverted to a fairly bearish outlook on Bundesbank rate cuts yesterday, as evidence accumulated that Frankfurt was concerned by the weakness of the D-Mark, *writes James Blitz.*

The Bundesbank left its repo rate, with which it provides weekly funds to commercial banks, unchanged yesterday at 7.60 per cent.

UK clearing bank base lending rate 6 per cent from January 26, 1993

That decision had been well anticipated by the market, but a greater source of bearishness was a speech from Mr Hans Tietmeyer, the Bundesbank Vice President, who echoed the rather hawkish tone on rate cuts made by colleagues earlier this week.

Mr Tietmeyer said that the gradual easing in German monetary policy had enjoyed a certain success but that monetary growth was "still rather high."

He also underlined that long term rates were more important than short-term rates in the formulation of policy. This compounded the bearish mood on a day when 10 year German bond yields rose from 6.87 per cent to 6.90 per cent.

All these factors helped to bring the September Euromark contract down 13 basis points to a close of 93.39. The June contract closed down 12 basis points at 92.65. With 3 month money at 7.43 per cent yesterday, the latter contract priced in little change over the next few weeks.

French futures barely responded to the move, with dealers biding their time to see how far the de-coupling of French and German rates can go. The September Pibor contract closed more-or-less unchanged at 93.32.

Portugal appeared unaffected by the unchanged policy in Germany yesterday, again cutting its key "mop up" rate by 100 basis points to 12 per cent.

There was more bullishness in sterling futures markets as speculation intensified that the UK might have a new chancellor in the next few weeks.

Two dealers said they were mystified by a market assumption that a new chancellor could cut rates soon after taking office. However, the September contract rose 6 basis points on the day to close at 94.22, a level that assumes 25 basis points off 3-month money by the autumn.

Three month money closed ¼ per cent softer at 5⅝ per cent. A morning shortage of £1.15bn was easily despatched.

FT LONDON INTERBANK FIXING

(11.00 a.m. May 26)	3 months US dollars		6 months US Dollars	
	bid 3³⁄₁₆	offer 3⁵⁄₁₆	bid 3⁵⁄₁₆	offer 3⁷⁄₁₆

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted to the market by five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

MONEY RATES

NEW YORK — Treasury Bills and Bonds

Lunchtime					
Prime rate	6	One month	2.81	Three year	4.60
Broker loan rate	5	Two month	2.88	Five year	5.37
Fed.funds	3½	Three month	3.12	Seven year	5.79
Fed.funds at intervention	-	Six month	3.30	10-year	6.15
		One year	3.50	30-year	6.89
		Two year	4.22		

May 26	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	7.75-7.85	7.60-7.70	7.45-7.55	7.35-7.49	7.00-7.15	8.50
Paris	7⅞-8	7¾-7⅞	-	7⅜-7⁹⁄₁₆	-	7.50
Zurich	4⅞-5⅛	5-5⅛	-	5-5⅛	-	-
Amsterdam	7.25-7.31	7.10-7.18	-	6.80-6.90	-	-
Tokyo	3⅛-3¼	3⅜-3⅜	-	-	-	-
Milan	11-11⅛	10⅝	-	10½-10⅝	-	-
Brussels	7⅛-7⅜	7⅜-7¼	-	7⅛-7⅛	-	-
Dublin	7⅛-7⅜	7½-7⅝	7⅞-7⅜	7¼-7¼	7⅛-7⅛	-

LONDON MONEY RATES

May 26	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	6⅝	6	6	6	6	6⅛
Interbank Bid	4	5¾	5⅞	5⅞	5⅞	6⅛
Sterling CDs	-	-	5⅞	5⅞	5⅞	6
Local Authority Deps.	5½	5½	5⅞	5⅞	5⅞	6⅛
Local Authority Bonds	-	-	-	-	-	-
Discount Mkt Deps	6¼	5⅞	-	-	-	-
Company Deposits	-	-	-	-	-	-
Finance House Deposits	-	-	5⅞	5⅞	6	6⅛
Treasury Bills (Buy)	-	-	5⅞	5½	5½	-
Bank Bills (Buy)	-	-	5⅞	5⅞	5⅞	-
Fine Trade Bills (Buy)	-	-	-	-	-	-
Dollar CDs	-	-	2.97	3.04	3.10	3.51
SDR Linked Dep. Offer	-	-	4⅛	4⅛	4⅜	4⅞
SDR Linked Dep. Bid	-	-	4⅛	4½	4⅛	4⅛
ECU Linked Dep. Offer	-	-	7⅛	7⅜	7⅜	7⅛
ECU Linked Dep. Bid	-	-	7⅛	7⅛	7⅛	6⅞

Treasury Bills (sell); one-month 5⅝ per cent; three months 5⁷⁄₁₆ per cent; six months 5⅞ per cent; Bank Bills (sell); one-month 5⅞ per cent; three months 5⅝ per cent; Treasury Bills; Average tender rate of discount 5.3346 p.c. ECGD Fixed Rate Sterling Export Finance. Make up day April 30, 1993. Agreed rates for period May 26, 1993 to June 22, 1993 Schemes II & III: 7.26 p.c. Reference rate for period April 1, 1993 to April 30, 1993, Scheme IV&V: 6.016 p.c. Local Authority and Finance Houses seven days' notice, others seven days' fixed. Finance Houses Base Rate 6½ from May 1, 1993. Bank Deposit Rates for sums at 7 days notice ...

BASE LENDING RATES

Adam & Company 6	Cyprus Popular Bank 6	Mount Banking 6
Allied Trust Bank 6	Duncan Lawrie 6	NatWestminster 6
AIB Bank 6	Equatorial Bank plc 6	Nykredit Mortgage Bnk 6.5
●Henry Ansbacher 6	Exeter Bank Limited 7	●Rea Brothers 6
B & C Merchant Bank 13	Financial & Gen Bank 7	Roxburghe Bank Ltd 6
Bank of Baroda 6	●Robert Fleming & Co 6	Royal Bk of Scotland 6
Banco Bilbao Vizcaya 6	Girobank 6	●Smith & Williamson Secs 6
Bank of Cyprus 6	●Guinness Mahon 6	Standard Chartered 6
Bank of Ireland 6	Habib Bank AG Zurich 6	TSB 6
Bank of India 6	●Hambros Bank 6	Unibank plc 6
Bank of Scotland 6	Heritable & Gen Inv Bk 6	●United Bk of Kuwait 6
Barclays Bank 6	●Hill Samuel 6	Unity Trust Bank Plc 6
Brit Bk of Mid East 6	C. Hoare & Co 6	Western Trust 6
●Brown Shipley 6	Hongkong & Shanghai 6	Whiteaway Laidlaw 6
CL Bank Nederland 6	Julian Hodge Bank 6	Wimbledon & Sth West 7
Citibank NA 6	●Leopold Joseph & Sons 6	Yorkshire Bank 6
City Merchants Bank 6	Lloyds Bank 6	
Clydesdale Bank 6	Meghraj Bank Ltd 6	● Members of British Merchant Banking & Securities Houses Association
The Co-operative Bank 6	Midland Bank 6	
Coutts & Co 6		
Credit Lyonnais 6		

MONEY MARKET FUNDS

Money Market Trust Funds

Money Market Bank Accounts

CROSSWORD

No.8,161 Set by ADAMANT

ACROSS
1 Clean things up after cooking one fry-up (6)
4 Rising currency in Germany and in France brings high prestige (3-6)
9 A woman in an expensive car is less cautious (6)
10 Seep through that the Parisian family man was round the joint (8)
12 The group clamour about the two days left (6)
13 The principal chamber has sufficient space above (8)
13 Lawyer's drinking hole (3)
14 The way an old convict got to the prison camp (6)
17 Foreign domination and chaos over sunless Wales (7)
21 Use the shuttle as well for night manoeuvres (6)
22 Money box (3)
26 Leave behind when abroad on second tour (8)
27 Criminal Office getting increasingly slow over an arrest (6)
28 Bring new life to disaffected teenager (8)
29 Mass of blood the man should dress (6)
30 Where non-English Soho types cater for childish tastes? (8)
31 Slowly progress to sort out the lines (6)

DOWN
1 Buy teabags? Well, tea in a bag (8)
2 Led US air redeployment to what was left (8)
3 An unattached boy possessing nothing can sponge on friends (8)
5 Choose to attribute in both senses to the quiet start (6)
6 A member and a lawyer provided the main group of attackers (6)
7 Raising no vote in America's racist group – what a hoot! (6)
8 Units of fuel costs for the hotel included in the price (6)
11 Fuzz we hear on cheek is a facial disfigurement (4-3)
15 How to stop the joke being told? (3)
16 Took the chair for one brief day (3)
18 Another long wait outside for the sleeping car (5-3)
19 Unfortunately it's on lease to a heel! (8)
20 Brood over precise measurement of the ring (8)
22 Sulphur should be searched for (6)
23 Mean to cheat you first (6)
24 Carbohydrate for a stiffer result (6)
25 Opt out after mine came up to peak condition (3-3)

Solution to Puzzle No.8,160

WORLD STOCK MARKETS

AUSTRIA | BELGIUM/LUXEMBOURG | DENMARK | FINLAND | FRANCE | FRANCE (continued) | GERMANY | GERMANY (continued) | ITALY | NETHERLANDS | NETHERLANDS (continued) | NORWAY | SPAIN | SWEDEN | SWEDEN (continued) | SWITZERLAND | SOUTH AFRICA | JAPAN | AUSTRALIA | AUSTRALIA (continued) | HONG KONG | MALAYSIA | SINGAPORE

[illegible]

CANADA

TORONTO

4 pm close May 26

Quotations in cents unless marked $

[illegible]

MONTREAL

4 pm close May 26

[illegible]

INDICES

NEW YORK DOW JONES

[illegible]

	May 21	May 14	May 7	year ago (approx.)
Dow Industrial Div. Yield	2.94	2.97	3.04	2.82

	May 19	May 12	May 0	year ago (approx.)
S & P Industrial div. yield	2.48	2.52	2.52	2.81
S & P Indl. P/E ratio	28.80	26.25	26.22	29.29

STANDARD AND POOR'S

NYSE Composite	247.70	247.07	246.27	246.42	251.38 (10/3)	238.21 (8/1)	251.36 (10/3/93)	4.46 (25/4/42)
Amex Mkt. Value	434.07	431.69	432.86	432.29	434.07 (25/5)	385.84 (8/1)	434.07 (25/5/93)	29.31 (9/12/72)
NASDAQ Composite	695.04	694.68	694.29	697.43	708.85 (4/2)	645.87 (26/4)	708.85 (4/2/93)	54.87 (31/10/72)

NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Closing price	Change on day
Amax	3,947,190	22¾	+ 4⅛
Am T & T	3,673,100	61⅞	+ 1⅜
IBM	2,938,700	50⅝	+ ⅝
Pepsico	2,792,300	36¾	+ ¼
Wal-Mart	2,168,000	28¼	+ ¼
Philip Morris	2,082,000	51	+ ½
T2 Medical	1,880,800	16⅞	+ 1½
Humana	1,803,900	11¼	+ ¼
Chicorp	1,776,200	28⅛	+ ⅝
Compaq Corp	1,718,800	56¾	- 1⅛

TRADING ACTIVITY

† Volume Millions	May 25	May 24	May 21
New York SE	222.094	196.728	256.112
Amex	17.621	15.741	19.954
NASDAQ	252.670	205.216	278.184
NYSE			
Issues Traded	2,521	2,509	2,526
Rises	1,126	944	790
Falls	805	964	1,148
Unchanged	590	601	596
New Highs	68	62	57
New Lows	18	14	9

CANADA

TORONTO	May 25	May 24	May 21	May 20	1993 HIGH	1993 LOW
Metals & Minerals	2916.18	(c)	2880.75	2900.64	2972.25 (8/2)	2743.31 (21/1)
Composite	3858.91	(c)	3836.00	3831.80	3858.91 (25/5)	3275.80 (21/1)
MONTREAL Portfolio	1911.22	(c)	1898.84	1901.12	1911.22 (25/5)	1720.87 (21/1)

[illegible]

AUSTRALIA | AUSTRIA | BELGIUM | CANADA | DENMARK | FINLAND | FRANCE | GERMANY | HONG KONG | IRELAND | ITALY | JAPAN | MALAYSIA | NETHERLANDS | NORWAY | PHILIPPINES | SINGAPORE | SOUTH AFRICA | SOUTH KOREA | SPAIN | SWEDEN | SWITZERLAND | TAIWAN | THAILAND | WORLD

[illegible]

**Saturday May 22: Taiwan Weighted Price: 4,295.43, Korea Comp Ex. [illegible] ♥ Subject to official recalculation.

Base values of all indices are 100 except Austria Traded, BEL20 [illegible] 1,000, JSE Gold - 255.7, JSE 25 Industrials - 264.3 and Australia [illegible]

TOKYO - Most Active Stocks

Wednesday, May 26, 1993

	Stocks Traded	Closing Prices	Change on day
Ricoh	6.7m	779	+17
Sumitomo Cement	8.3m	652	+10
[illegible] Electric	6.7m	1,350	+20
[illegible] Heavy	5.8m	730	+0
[illegible] Chemicals	5.8m	1,290	+80
UBE Industries	5.5m	448	+18
Taiyo Fishery	5.1m	519	+2
NKK	5.0m	340	+4
Sumitomo Bank	4.8m	2,160	+90
Sumitomo Met Ind.	4.3m	1,060	-10

4 pm close May 26

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
14⅝	11½	AAR Corp	0.48	3.5	26	103	13¾	13½	13⅝	+⅛
27¼	20	A L Labs A	0.18	0.7	46	308	26⅜	26	26⅜	+⅛
68½	54⅝	AMP Inc	1.60	2.6	22	2605	61¾	61⅛	61¾	+⅝
72⅝	55½	AMR			11	7030	72½	71½	72	
2¼	1¾	ARX			13	51	2⅛	2	2⅛	
51½	29¾	ASA	2.00	4.2	31	919	48⅝	47⅜	47⅜	-1¼
30¾	22⅝	Abbott Lab	0.68	2.4	18	0189	28⅛	27⅜	27⅜	-⅛
12⅝	10¼	Abitibi Pr	0.50	4.3	4	11	11⅞	11¾	11⅞	
11¾	10¾	ACM Gvt In	0.96	8.5		276	u11¾	11⅝	11⅝	
9¾	8⅛	ACM GvOpp	0.80	8.8		164	9⅝	9⅜	9⅝	+⅛
9⅝	8¾	ACM Gvt Sp	0.80	8.4		212	d9⅝	9½	9½	
11⅞	10½	ACM Gvt Se	0.96	8.5		342	11¼	11⅛	11¼	+⅛
11	9⅝	ACM Man	1.00	10.0		189	d11	10¾	10¾	-⅛
9⅞	8⅝	ACM Managd	0.72	7.8		190	9⅛	9	9⅛	
11	7¾	Acme Cleve	0.40	3.6	14	93	d11	10⅞	11	
8¼	6½	Acme Elect			233	48	7	6⅞	7	+⅛
16	12	Acuson			13	960	12	d11⅝	11¾	-¼
22¼	19⅝	Adams Expr	0.48	2.3	1	84	21⅛	20⅞	21¼	+¼
66	45½	Ad Micro	3.00	4.9		223	62	60½	61½	+1½
32¾	17⅝	Ad Micro P	3.00	8.5	131	1702	30½	29¾	30½	+¾
7¾	5½	Advest Grp	0.16	2.7	16	90	6	5⅞	6	+⅛
24¾	20¼	Advo Inc	0.08	0.3	25	106	21½	21¼	21½	+¼
49⅞	41⅛	Aegon ADR	2.95	0.6	8	106	45¾	45¼	45¾	

Continued on next page

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4 pm close May 26

NYSE COMPOSITE PRICES

Continued from previous page

- S -

1993 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
22	15½	8 Anita Rl	1.36	7.8	10	112	18⅜			
20¾	17	SCOR US Cp	0.32	1.8	220	5	17⅞	16	16	-¼
27⅝	30	SPS Techno	1.28	4.8	28	124	u27¾	17⅞	17⅝	
14½	12⅞	Sabine Rl	1.33	5.8	18	82	14	27½	27⅝	+⅛
13⅛	8⅞	Safecard	0.16	0.8	15	499	12¼	13⅞	14	
28½	16⅞	Safeg'd Sc			8	28	18¼	11⅝	11⅞	-⅛
24¾	16⅛	SafetyKln	0.36	2.0	25	2414	18⅛	18	18	
18½	10⅞	Safeway			20	1079	16⅜	18⅛	18⅜	+½
3½	2	SafewayW96				424	40½	15⅞	16⅜	+⅜
44½	37½	StJoePaper	0.20	0.5	93	89	39⅛	3⅜	3½	+¼
37⅝	31	StJoeLSP	1.78	4.7	15	5	u37⅝	38¼	39⅛	+¼
83¼	75	St Paul's	2.80	3.5	12	1367	80¼	37⅝	37⅝	
9⅝	7⅞	Salant Crp			3	8	8⅜	79⅛	80⅛	+1
75¼	48½	Sallie Mae	1.20	2.5	18	2739	47⅞	8¼	8⅜	+⅛
13⅞	13	Salomon Br	0.36	2.7		379	13½	47⅛	47¼	-⅜
41⅞	34	Salomonlnc	0.64	1.8	18	4100	37⅛	13⅜	13⅜	
26⅞	22¼	SanDgo G&E	1.48	5.7	14	213	20⅞	36	36⅛	+⅛
4⅜	3½	SantaFeEDo	0.40	10.7	187	47	3¾	25¼	25⅞	+½
11⅞	0⅛	SantaFeERs	0.16	1.5	185	615	18⅝	3¾	3¾	
40¾	35¾	SantaFePac	2.80	7.3	13	38	38¾	10⅝	18¾	
18	13¾	SantaFeSth	0.10	0.6	16	1867	17⅜	35⅛	38⅜	
31¾	23⅜	Sara Lee s	0.58	2.2	28	4237	26⅞	17⅛	17⅛	-⅛
47	40⅛	Scana Corp	2.74	5.9	15	303	46⅞	26¼	26⅝	-⅛
49⅝	43	Scecorp	2.80	5.8	14	2117	40½	46½	46⅜	
38⅞	23⅞	SchererRP			25	671	28⅝	47⅝	48½	+⅜
69⅜	51¾	Schering Pl	1.80	2.8	10	4332	68¾	26¾	28½	+1¾
66⅞	55⅛	Sch'berger x	1.20	1.8	25	6409	66¾	68⅛	68⅛	+1½
39	24⅞	Schwab(C)	0.30	0.8	13	1911	38½	66	66½	+⅞
7¾	5⅝	Schwitzer			30	31	7⅛	33¾	35½	+1¾
33¼	17¼	ScientAtla	0.12	0.4	01	3349	32⅞	7	7	
13¼	9⅛	Scotman	0.18	0.8	12	34	12	31⅛	32⅝	+¾
41	33⅜	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12	12	12	
[illegible]										

Price data supplied by Telekurs

[illegible]

AMEX COMPOSITE PRICES

4 pm close May 26

Stock	Div.	P/E	Sls 100s	High	Low	Close	Chng
[illegible]							

NASDAQ NATIONAL MARKET

4 pm close May 26

Stock	Div.	P/E	Sls 100s	High	Low	Last	Chng
[illegible]							

AMERICA

Fall in bond yields helps to underpin Dow

Wall Street

US share prices traded in a narrow range yesterday after more bad news on the economy kept buyers in check, but another fall in bond yields prevented the markets from losing any ground, *writes Patrick Harverson in New York.*

At 1 pm, the Dow Jones Industrial Average was up 3.49 at 3,519.12. The more broadly based Standard & Poor's 500 was 0.76 higher at 449.61, while the Amex composite was up 0.67 at 434.74, and the Nasdaq composite up 3.89 at 698.93. NYSE volume was 140m shares by 1 pm.

Trading opened subdued, with prices edging higher across the board. Market sentiment was affected by yet more bad news on the economy – a flat April durable goods orders number.

Analysts had been expecting orders to have risen by between 1 per cent and 1.5 per cent last month, but the figures suggested, yet again, that the economy is struggling to make headway after its unsustainably strong final quarter of 1992.

Fortunately for equities, bond prices continued to climb, even though the rise in bonds was triggered by the poor economic data. By early afternoon the benchmark 30-year government bond was up ¼ at 101 11/32, and the yield was back down below 7 per cent.

Politics continued to affect the markets. The House of Representatives is due to vote on President Bill Clinton's controversial budget today, and investors are worried that a defeat for the president in the House will cripple his plans to boost the ailing economy.

Among individual stocks, Compaq rose $1¾ to $58¼ after a senior executive at the computer company made promising noises about second quarter earnings prospects.

Other big computer stocks were also higher, with IBM up $1⅞ at $52, Digital Equipment up $⅝ at $45¼ and Hewlett-Packard $¾ firmer at $84⅜.

Conner Peripherals fell $1 to $11⅞ in heavy trading after the company warned that it might make an operating loss in the third quarter.

First Republic rose $1⅛ to $12¼ on reports that the Federal Deposit Insurance Corporation had rescinded the "memorandum of understanding" which has been imposed on the bank since August last year. The memoranda allow regulators to keep a close eye on banks' activities, and restrict their businesses in certain ways.

T2, which has been boosted in recent days by speculation that a management-led group is planning to take over the company, gave up some of its gains yesterday amid growing doubts about the deal.

The shares fell $1½ to $15⅝.

On the Nasdaq market, Novell fell $2⅝ to $29¼ in volume of 8m shares after two brokerage houses downgraded the stock following disappointing quarterly results.

Canada

TORONTO was lifted by the financial services and transportation sectors as the TSE-300 index rose 7.56 to 3,867.47 by midsession in volume of 35.1m shares valued at C$325.8m.

The financial services sector climbed 30.03 to 2,975.22 helped by a cut in the Bank of Canada's key lending rate on Tuesday. Canadian Imperial Bank of Commerce rose C$½ to C$30½.

SOUTH AFRICA

GOLD shares were slightly higher but off the day's peaks as the bullion price slipped back amid fears of large-scale selling overseas. The index put on 4 to 1,860 while industrials added 7 to 4,525. The overall index lost 11 to 3,999.

EUROPE

Economic data give Frankfurt no inspiration

BOURSE indices mostly moved a few points either way yesterday, the FT-SE Eurotrack moving from slightly better in the morning to slightly worse in the afternoon, *writes Our Markets Staff.*

FRANKFURT found nothing positive to bite on, Baden-Württemberg's inflation rate coming in at 4.1 per cent against Tuesday's 3.9 per cent from North Rhine-Westphalia, the D-Mark continuing to soften and the Bundesbank leaving repo rates unchanged.

The DAX index closed 3.82 higher at 1,622.00 as turnover rose from DM4.5bn to DM5.0bn. Strength in the big three chemicals balanced weakness in the automotive sector where Continental, which announced a warrant bond issue on Tuesday, incorporated that afternoon's post bourse weakness to close DM6.60 lower on the official session at DM192.

Volkswagen dropped another DM4.70 to DM310.70 on the row between Mr Ignacio Lopez and his former employer, General Motors.

PARIS mulled over details of the government's privatisation package, the CAC-40 index moving narrowly before settling just 0.66 lower at 1,890.43. Turnover was moderate at FFr2.3bn. There are hopes of a further easing in French interest rates in the near future, helped by continued strength in the franc.

Contained among the privatisation proposals, set to become law by the end of June, is one ending the 20 per cent ceiling on foreign ownership.

Construction stocks benefited from expectations of an upturn in the sector flowing from the government's plans to develop infrastructure projects. Lafarge advanced FFr11.40 or 3.4 per cent to FFr352.90 and Bouygues FFr11 to FFr664.

LVMH slid FFr48 to FFr3,588 following a profits warning from Guinness, while profit-taking was noted in Casino, down FFr3.40 or 2.5 per cent at FFr134.50 and Schneider, off FFr21 or 3 per cent at FFr669.

ZURICH's SMI index closed 3.2 higher at 2,247.0. In banking, UBS ended SFr9 higher at SFr977 on foreign buying. Elsewhere in the blue chips, Nestlé's SFr20 drop to SFr1,120 preceded the setting of its rights issue price at SFr800 per registered share.

MADRID was dampened down by a sharp weakening of the peseta but the general index, 0.43 higher at 259.33, made a new high for the year. Turnover was around Pta22.8bn, against Pta24.6bn on Tuesday.

BRUSSELS rose in spite of a further, 2.2 per cent dip in Solvay, BFr250 lower at BFr11,150, on its planned closure of two soda ash plants. The Bel-20 index closed 4.42 higher at 1,195.35 in turnover of BFr819m.

The steelmaker, Arbed, and the shipper, CMB, were the day's leading gainers. The glassmaker, Glaverbel, fell BFr200, or 6.5 per cent to BFr2,900 after it predicted a big loss in the first half of 1993.

MILAN continued to ease as some investors took profits, while further evidence of problems at Fiat dampened overall sentiment.

The carmaker has asked the government for permission to make additional temporary lay-offs at its plants which will be subsidised by the state. The shares fixed down L195 or 2.9 per cent at L6,351 and eased another L100 on the kerb. IFI, the holding company, lost L580 to L13,420.

The Comit index lost 6.56 to 551.99. SME lost L28 to L6,586 after announcing an unchanged dividend of L110 on its 1992 results.

AMSTERDAM was slightly stronger helped by the rise in the dollar. The CBS Tendency index rose 0.4 to 106.5.

Among the day's gainers KNP BT, the paper, packaging and printing equipment group, rose 40 cents to Fl 29.00 in spite of announcing a slight loss for the first quarter of 1993.

Nutricia recovered some of Tuesday's losses, up Fl 2.00 at Fl 124.30.

STOCKHOLM saw a 3 per cent fall in the forestry sector depress overall activity. The Affärsvärlden general index fell 5.2 to 1,090.6 in turnover of SKr1.3bn.

MoDo, which reported a first quarter loss of SKr200m after Tuesday's close, saw its B shares fall SKr17 to SKr242 while SCA, which yesterday reported a rise in first quarter figures, slipped SKr4 to SKr127.

HELSINKI blamed a KOP economist, bearish of the bank sector, for a fall in the Hex index of 26.0, or more than 2 per cent, to 1,209.2. KOP itself dropped FM0.50 to FM10.00.

FT-SE Actuaries Share Indices THE EUROPEAN SERIES

May 26 Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1166.44	1167.75	1167.01	1164.96	1163.04	1162.14	1162.67	1162.51
FT-SE Eurotrack 200	1227.99	1229.59	1229.57	1228.41	1226.22	1226.20	1226.63	1226.78

	May 25	May 24	May 21	May 20	May 19
FT-SE Eurotrack 100	1164.13	1156.88	1155.78	1156.03	1147.97
FT-SE Eurotrack 200	1224.18	1217.42	1215.46	1220.19	1212.27

Base value 1000 (26/10/90) High/day: 100 - 1168.10; 200 - 1230.45 Low/day: 100 - 1162.04 200 - 1224.99.

Venezuelan equities face an uncertain outlook

Joseph Mann considers the issues and prospects following the suspension from office of Mr Perez

If 1992 was a bad year for Venezuela's equity market, 1993 is not shaping up to be much better.

Since early last year, political upheaval and continued uncertainty over future economic policies, together with high domestic interest rates, have hurt the performance of the Caracas stock exchange.

For most of this year the stock exchange has been in the doldrums. The index dropped to a 26-month low on March 17 and showed only a modest recovery until April 26, when equity prices jumped 11.1 per cent the day after Mr Oswaldo Alvarez Paz was chosen as presidential candidate by the Christian Democratic Copei party.

Recently, share prices have been volatile. Last week's decision by the senate to suspend President Carlos Andres Perez over allegations of corruption had little obvious effect on the market which, since then, has improved by some 1.5 per cent. However, this compares with a fall of more than 10 per cent in early May on a rumour that Mr Perez had resigned.

In contrast, the index saw a one-day increase of 11 per cent, the largest on record, in April after Copei, the main opposition party, chose a free market advocate as its presidential candidate for elections scheduled for December.

This latter performance helped Venezuela register the second best April rise in dollar terms among the world's emerging markets, according to data supplied by the IFC, part of the World Bank.

However, the market still remains 8 per cent down on the year. Equities have had to compete against unusually high real interest rates, with some commercial banks offering more than 60 per cent per annum on short-term deposits in a country where inflation is expected to range between 30 to 35 per cent this year, against 32 per cent in 1992.

The Venezuelan government recently tried to encourage a decline in domestic interest rates by reducing the yields of key government debt instruments sold on the domestic market. However, commercial rates have not yet shown any significant response.

The administration, which initiated unpopular economic reforms at the beginning of its five-year term, deserves the credit for promoting three years of economic growth.

However, last year the oil-exporting republic was shaken by two unsuccessful *coups d'etat* and months of related political turmoil.

For 1993, the political outlook remains confused, with Mr Perez facing impeachment when he appears before the supreme court, a case which could stretch into 1994.

This year began with rumours of another military uprising and the uncertainties of a presidential campaign in which some of the major candidates have attacked the free-market policies of Mr Perez.

Investors are now concerned over what interim president Mr Octavio Lepage will do.

The country's political crises have developed during a time of strong economic growth. Unemployment has fallen sharply and foreign investment is strong, but the government has been unable to push inflation below 30 per cent.

This year the government is forecasting growth of between 3.9 and 5 per cent. But until the political situation settles down the country cannot expect steady economic and social progress.

IFC EMERGING MARKETS INVESTABLE INDICES

Market	No. of stocks	Dollar terms: Apr 30 1993	% Change over month	% Change on Dec '92	Local currency terms: Apr 30 1993	% Change over month	% Change on Dec '92
Latin America							
Argentina	(10)	581.81	-3.4	+0.9	357,016.40	-3.4	+0.6
Brazil	(44)	149.41	-3.1	+19.5	6,569,436.3	+24.5	+215.0
Chile	(20)	373.25	-10.1	-10.8	605.11	-8.3	-5.6
Colombia[1]	(9)	351.06	+0.7	+17.4	525.48	+1.7	-14.1
Mexico	(59)	845.94	-5.4	-4.5	861.60	-5.4	-5.1
Venezuela[2]	(9)	476.81	+32.4	-8.2	928.30	+32.6	-0.8
East Asia							
South Korea[3]	(130)	101.85	+8.1	+3.7	108.55	+8.4	+4.7
Philippines	(11)	159.78	+4.1	+19.7	198.78	+7.5	+22.4
Taiwan, China[4]	(76)	98.49	-5.5	+33.5	94.54	-6.5	+35.6
South Asia							
India[5]	(61)	69.22	-5.8	-28.1	76.55	-5.1	-18.8
Indonesia[6]	(31)	69.85	+2.2	+19.0	79.45	+2.0	+19.3
Malaysia	(61)	195.96	+14.7	+19.8	185.57	+13.5	+17.6
Pakistan[7]	(9)	183.33	-5.1	-8.4	221.19	-5.0	-4.6
Thailand	(52)	232.88	+1.5	-1.1	232.55	+0.6	-0.3
Euro/Mid East							
Greece	(17)	212.35	-3.8	+8.7	309.56	-5.5	+8.7
Jordan	(5)	128.17	+5.2	+9.7	180.08	+4.3	+8.6
Portugal	(18)	85.83	-1.7	+11.5	86.70	-2.7	+11.0
Turkey[8]	(31)	138.30	+51.4	+102.0	620.93	+51.0	+126.2

Base date: Dec 1984=100 except those noted which are: (1)Feb 7 1991; (2)Jan 5 1990; (3)Jan 3 1992; (4)Jan 4 1991; (5)Nov 6 1992; (6)Sep 28 1990; (7)Mar 1 1991; (8) Aug 4 1989

ASIA PACIFIC

Nikkei average climbs by 1.2 per cent

Tokyo

EQUITIES climbed 1.2 per cent on institutional buying in spite of the yen's advance against the dollar, *writes Wayne Aponte in Tokyo.*

The Nikkei average ended 264.23 higher at 20,895.59, after dipping to a day's low of 20,527.96. The Topix index rose 21.43 to 1,633.72 and in London the ISE/Nikkei 50 index gained 7.43 at 1,263.87.

Volume was 470m shares compared to Tuesday's 437m, while rises led falls by 743 to 292, with 152 issues unchanged.

Brokers said some investors had bought shares on speculation that the yen's rise against the dollar would encourage the Bank of Japan to cut interest rates. The yen closed at Y108.65 to the dollar in Tokyo.

However, an analyst at a Japanese securities house said that equity markets had already discounted foreign exchange rate considerations. The yen, he added, is expected to weaken during the latter half of this year.

The banking sector was strong after long-term credit banks increased their prime lending rates. Industrial Bank of Japan moved ahead Y140 to Y2,880 and Mitsubishi Bank Y100 to Y2,680.

Brokerages benefited from the buying interest in banking issues: Nomura rose Y60 to Y2,180, Nikko Y50 to Y1,120, Daiwa Y50 to Y1,340 and Nikko Y50 to Y1,120.

Keisei Electric Railway moved Y20 higher to Y1,350 on a report that its affiliate, Oriental Land – which runs Tokyo Disneyland – and Walt Disney, of the US, had agreed to build another theme park in Tokyo.

Investors bought the shares of some cement companies on suggestions that an imminent passage of the supplementary budget by the lower house will translate into more public works projects and a revival of the cement industry. Sumitomo Cement appreciated Y19 to Y652 and Onada Y23 to Y667.

Profit-taking pushed TDK, the world's largest manufacturer of magnetic tapes, Y130 lower to Y3,810, partly on its recent 43 per cent drop in pre-tax profits and partly on the day's rise in the yen.

In Osaka, the OSE average added 91.10 at 22,902.92 in volume of 28.4m shares.

Roundup

THE ANTIPODES provided more new highs for the region.

AUSTRALIA climbed to a 43-month peak, gold shares again showing the strongest gains as the firmer Australian dollar, and rises in most resource stocks, left the All Ordinaries index 20.1 higher at 1,717.4.

Turnover expanded from A$293m to A$346.6m. The gold shares index surged 70.3 to 1,369.3, its best level since February 1990, as some brokers said that gold bullion, currently at US$378.75 an ounce, could reach US$400.

Plutonic Resources leaped 94 cents to A$5.75 after reporting a second significant new prospect, Goldfish, in Western Australia.

NEW ZEALAND scraped to a new record in busy trading, but ended off the day's high due to late profit-taking. The NZSE-40 index was finally 2.92 firmer at 1,640.54 in turnover up from NZ$31.5m to NZ$45.0m.

KARACHI rose strongly towards the close ahead of a decision by the supreme court to reinstate the national assembly and Prime Minister Nawaz Sharif. This overturns the dissolution of parliament by President Ghulam Ishaq Khan last month. The KSE index put on 7.45 at 1,142.12.

Mr Muddassar Malik, director of BMA Capital Management in Karachi, commented that the outlook for equities was positive and forecast a 3 to 5 per cent rise in the index over the next few days.

HONG KONG saw profit-taking and the Hang Seng index slipped 17.31 to 7,350.87.

SINGAPORE reported interest in selected blue chips as the Straits Times Industrial index advanced 7.90 to 1,868.64.

MANILA extended Tuesday's gains, the composite index ending 16.21 higher at 1,608.65 as turnover rose from 148.4m pesos to 175.2m pesos.

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co. and NatWest Securities Limited in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	TUESDAY MAY 25 1993: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY MAY 24 1993: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 1993 High	1993 Low	Year ago (approx)
Australia (69)	136.38	+2.5	131.08	94.40	115.47	129.48	+1.5	3.84	133.02	128.48	92.74	113.18	128.20	144.18	117.39	150.74
Austria (18)	141.52	+1.0	136.02	97.96	118.82	119.60	+0.4	1.72	140.14	135.35	97.71	119.23	119.08	150.96	131.18	157.94
Belgium (42)	143.04	-1.0	137.48	99.00	121.10	117.82	-1.8	4.82	144.51	139.57	100.75	122.58	119.92	156.76	131.19	141.48
Canada (109)	129.97	+0.7	124.92	89.95	110.03	118.67	+0.6	2.78	129.11	124.71	90.02	109.84	117.99	129.97	111.41	128.79
Denmark (33)	216.18	-0.9	207.79	149.64	183.04	183.19	-1.4	1.23	218.18	210.73	152.12	185.63	185.84	223.64	185.11	242.95
Finland (23)	99.73	-0.5	95.86	69.03	84.44	114.80	-1.2	1.07	100.21	96.78	69.87	85.26	116.24	100.92	65.50	78.48
France (98)	154.82	+2.0	148.80	107.15	131.07	133.14	+1.5	3.37	151.75	146.57	105.80	129.10	131.18	167.36	142.72	162.60
Germany (62)	109.51	+1.2	105.25	75.81	92.71	92.71	+0.7	2.29	108.17	104.47	75.43	92.03	92.03	117.10	101.59	121.87
Hong Kong (55)	298.56	+1.1	286.97	206.65	252.79	296.21	+1.2	3.15	295.17	285.09	205.80	251.15	292.80	298.56	216.82	253.59
Ireland (15)	159.91	+1.7	153.69	110.68	135.38	150.01	+1.2	3.53	157.20	151.84	109.61	133.75	148.21	170.40	129.28	155.99
Italy (73)	71.87	+0.1	69.08	49.74	60.84	79.33	-0.4	2.42	71.78	69.33	50.06	61.07	79.61	72.82	53.78	70.80
Japan (470)	146.24	-1.2	140.56	101.22	123.83	101.22	+0.4	0.82	144.55	139.61	100.78	123.00	100.78	148.85	100.75	102.10
Malaysia (69)	337.60	+0.2	324.49	233.67	285.82	333.70	+0.3	2.03	336.77	325.27	234.78	286.52	332.81	343.04	251.66	236.69
Mexico (18)	1509.21	+0.4	1450.59	1044.82	1277.78	5143.33	+0.2	1.32	1503.52	1452.18	1048.29	1279.22	5133.82	1735.81	1410.30	1620.57
Netherland (24)	165.36	+1.4	158.90	115.15	140.85	138.42	+0.9	4.00	164.14	158.54	114.45	139.68	137.21	172.75	150.39	159.26
New Zealand (13)	49.77	+1.5	47.84	34.45	42.14	48.28	+0.7	4.74	49.05	47.38	34.20	41.74	47.93	49.77	40.56	45.94
Norway (22)	156.42	-0.1	150.35	108.27	132.44	145.96	-0.6	1.81	156.55	151.21	109.15	133.20	146.83	168.21	137.71	164.84
Singapore (38)	251.35	-0.2	241.59	173.98	212.80	187.00	-0.2	1.34	251.87	243.27	175.61	214.29	187.43	254.49	207.04	222.82
South Africa (60)	199.65	-0.6	192.09	138.33	169.20	202.35	-0.7	2.48	201.01	194.14	140.14	171.01	203.65	201.01	144.72	149.69
Spain (46)	129.72	+1.2	124.69	89.79	109.83	122.18	+0.9	4.68	128.15	123.77	89.35	109.03	121.01	132.82	115.23	156.40
Sweden (36)	180.60	+0.8	173.58	125.00	152.91	194.83	+0.7	1.73	178.99	172.88	124.80	152.29	193.44	180.50	149.70	193.56
Switzerland (55)	124.48	+1.3	119.65	86.17	105.41	112.60	+0.4	1.93	122.92	118.72	85.71	104.59	112.10	124.48	108.61	105.08
United Kingdom (218)	177.83	+0.9	170.92	123.07	150.54	170.92	+0.4	4.03	176.25	170.23	122.88	149.94	170.23	181.99	162.00	185.74
USA (518)	183.40	+0.2	176.28	126.95	155.28	183.40	+0.2	2.79	183.05	176.80	127.63	155.75	183.05	186.27	175.38	168.08
Europe (785)	145.41	+1.0	139.76	100.65	123.12	132.99	+0.5	3.35	143.92	139.01	100.35	122.46	132.30	149.02	133.92	153.73
Nordic (114)	168.96	+0.3	162.39	116.95	143.05	161.26	-0.1	1.55	168.53	162.78	117.51	143.39	161.40	169.92	142.13	181.18
Pacific Basin (713)	150.37	+1.2	144.53	104.08	127.31	107.65	+0.5	1.10	148.60	143.53	103.61	126.44	107.33	150.37	105.89	108.73
Euro-Pacific (1478)	148.22	+1.1	142.46	102.58	125.48	118.69	+0.5	2.00	146.57	141.57	102.18	124.70	118.10	148.84	117.26	126.94
North America (628)	180.06	+0.2	173.07	124.65	152.48	178.99	+0.2	2.79	179.69	173.55	125.28	152.91	178.82	182.38	171.51	165.48
Europe Ex. UK (567)	125.41	+1.1	120.54	86.82	106.20	111.58	+0.6	2.88	124.01	119.78	86.48	105.54	110.89	128.65	112.51	128.90
Pacific Ex. Japan (243)	191.25	+1.3	183.82	132.40	161.94	174.75	+0.8	3.14	188.73	182.30	131.62	160.61	173.29	191.25	152.70	173.95
World Ex. US (1665)	148.95	+1.1	143.17	103.11	126.12	120.85	+0.5	2.03	147.36	142.33	102.75	125.38	120.27	149.39	118.51	129.27
World Ex. UK (1966)	157.72	+0.7	151.60	109.18	133.56	137.03	+0.4	2.14	156.60	151.25	109.19	133.25	136.54	157.72	134.22	146.56
World Ex. So. Af. (2124)	159.33	+0.7	153.14	110.29	134.91	139.65	+0.4	2.32	158.14	152.74	110.27	134.58	139.12	159.33	137.75	142.08
World Ex. Japan (1714)	168.39	+0.5	161.85	116.57	142.59	161.78	+0.3	2.98	167.48	161.77	116.78	142.52	161.22	168.56	156.57	157.40
The World Index (2184)	159.50	+0.7	153.31	110.40	135.05	140.17	+0.4	2.32	158.34	152.93	110.40	134.72	138.66	159.50	137.32	141.38

Latest prices were unavailable for this edition.

مختار من الأهرام

Influence of the new entrepreneurs – see page 10

FINANCIAL TIMES SURVEY

RUSSIA

Key facts and economic indicators – see page three

SECTION III

Thursday May 27 1993

A DUAL ECONOMY EMERGES
Russia's economic transformation is under way – and an unofficial, unmeasured and often anarchic private economy is appearing, leading to growing inequalities, reports Edward Balls
– SEE PAGES 2 AND 3

PRIVATISATION OF INDUSTRY
In the big drive towards mass privatisation, more than 33,000 former state enterprises were auctioned-off last year to new owners. But the programme has run into sharp criticism.
– SEE PAGES 4 AND 5

Pressing ahead on the long road of reform

Amid continuing radical changes, many of Russia's business and political leaders fear takeover and expropriation by foreign interests and capital. But the stolid patience of the populace has remained extraordinary, reports **John Lloyd** from Moscow

HOW one reads the progress of Russian reform in the past year is a matter of tbe half full or half empty glass.

For those who prefer to point out that the glass is half empty, there is a rich selection of horrors before which to shiver. Russia has not succeeded in laying democratic foundations: it has neither a constitution commensurate with the demands of a new state, nor strong political parties - and it has a bitter, unresolved tension between the presidency and the parliament.

Tbe lack of a constitution and the weakness of the central government means that the republics and the regions within the federation are anarchically claiming and taking power. The political stasis has enforced economic timidity, as the cabinet – itself divided between conservatives, moderates and radicals – stands transfixed in front of the massive tasks of restructuring which it must undertake.

Foreign investment is negligible and foreign confidence dropping because of a largely bad experience with joint ventures and with direct investment. As the world's two most populous states – China and India – move strongly towards more open economies and attract mobile capital, Russia stands as a lonely outpost of statism, immured in opaque struggles, unable to chart a consistent course, the despair of the coalition of rich capitalist states which is trying to belp it, and with it the other former Soviet States.

It remains a nuclear arsenal, and has not yet ratifiad the Start II treaty nor begun a wide-scale demobilisation of its vast army. It has a host of tensions on its borders with the former Soviet republics – especially nuclear-armed Ukraine, which has not even signed Start 1 and is increasingly inclined to retain its warheads.

This is a bare selection: the nightmare can easily be rendered more lurid with the addition of ecological disasters waiting to happen, increasing impoverishment of vulnerable sections of the population and the rise of fascist – and neo-communist – sentiment. But it requires the balance of the half full perspective.

In this view, a blink-of-an-eye 18 months have passed since reforming government started to construct a Russian state. In that time, the process of state-building has been almost entirely peaceful: not only has there been little violence, there have been few demonstrations (and these ill attended in the main). A parliament functions, as does a presidency, in public view: their arguments are fierce, but open – a rare experience for this country. The press is free, often raucously so. Organisations defending and furthering civil rigbts spring up constantly: the restrictions on domestic and foreign travellers, for citizens and non-citizens alike, have largely gone.

THE reforms instituted last year by a reform cabinet under Mr Yagor Gaidar have meant that money and price now matter again, and that property is beginning to acquire a meaning. Managers are being constrained to think about making a profit – and consumers are beginning to feel able to demand availability and quality. Neither now look only to the state to feed them.

The privatisation campaign, which picked up speed in the second half of last year, has now seen half of the small businesses privatised.

Mr Anatoly Chubais, the deputy premier in charge of privatisation, predicts that all will be off the state books by the end of this year, together with 5,000 medium and large-sized companies. The voucbers issued to all Russian citizens, with which they can take part in privatisation through auctions, have at least given them a stake and given the government a pro-market constituency.

Finally, reform is still on the agenda. It is a rough road, but President Boris Yeltsin is still on it, and he still protects a cabinet struggling to further tbe market and to underpin democracy.

Mr Yeltsin is a deeply ambiguous figure: by turns courageous and backsliding, clear and muddled, uncompromising and hesitant. Yet his gut instinct for a more liberally inclined Russia has not deserted him and his shaky popularity remains higher than that of any contender, including populists like his vice president, General Alexander Rutskoi.

The change in Russia remains obvious in foreign policy – a change which predates the disintegration of the Soviet Union but which has stood the test of severe internal criticism from conservatives and nationalists.

ALTHOUGH it has been unable to solve its long-running territorial dispute with Japan over the Kurile Islands, Russia has proved a strong supporter of the UN majority line in the former Yugoslavia; it has generally retained sanctions on Iraq and Libya; and it no longer provides aid and succour to historic allies like Cuba.

This does not make the international crises less critical – there is an argument it has made them more so by removing the element of bi-polar stability – but it has given a greater scope for democratic development in countries frozen in cold-war attitudes and alliances.

The key consideration is the likely durability of peaceful reform. Mr Yeltsin passed tha end of last year and the beginning of this in increasingly impossible compromises with a parliament wbose majority became more and more opposed to the president and government – and who were able to force Yegor Gaidar out of the leadership of the cabinet in December. Despite this, be insisted on the holding of a referendum a month ago and won votes of confidence in bimself and his reform programme.

Since then, he has sought – not wholly convincingly yet – to capitalise on these results, by giving a boost to the privatisation programme, sacking some of the more conservative senior officials and getting agreement on a reform plan between the Central Bank and the government ready for the approval of the International Monetary Fund.

As this survey is written, the combat between him and his government and other allies on the one side and the parliament and its allies on the other is still in the wings: both have rallied round different versions of a constitution which, broadly, would seek to mould the country into a presidential or a parliamentary system.

Mr Yeltsin, with the backing of the security and defence ministries and with wider powers of patronage, has retained the upper hand: the parliament

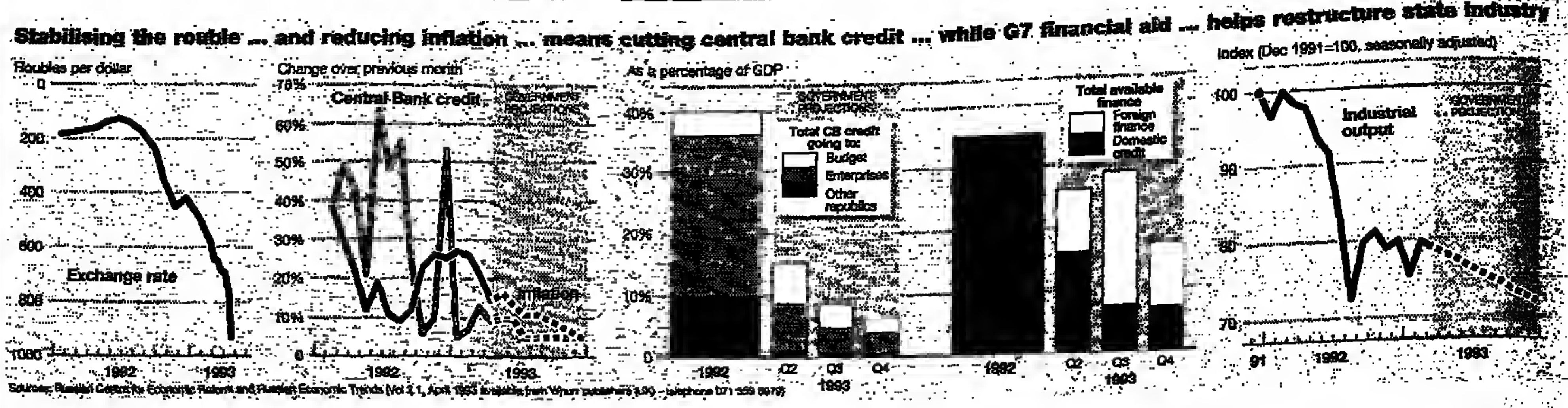
Turn to page two

Cossaks ride in the parade at Volgograd during the 50th anniversary of the Stalingrad battle. Thousands of Russians marked the celebrations, used by Kremlin leaders to appeal for unity in a new struggle against economic perils. (See page 5 for reports on privatisation developments in Volgograd)

ON OTHER PAGES:

RUSSIA 2

President Boris Yeltsin: still battling down the rough road of reform – his instinct for a more liberally-inclined Russia has not deserted him



Pressures on Yeltsin for compromise on reforms

Continued from previous page:

is again pressing for a compromise, while Mr Yeltsin's allies fear that such a siren call may again enmesh the president in fruitless debate without an outcome.

These fears are real, and their resolution is presently the highest task facing Russia's leadership. Russia has not lost the reform road, and the stolid patience of its people has been extraordinary. But nor has Russia properly found the reform road: it is being surpassed by other states; and its hold over the attention and purse strings of the developed world must have limits.

Above all, it needs to construct normal, open and transparent relations with the world from which it attempted to cut itself off during the Communist period. Many of its business and political leader fear takeover and expropriation by foreign interests and capital: these fears need to be both calmed and faced, and the nature of international capital and division of labour grasped and internalised to suit Russian conditions.

It has the advantage not just of a patient but of an educated and often cultured people: a mineral-rich earth: an industrial culture; and, presently, international goodwill. It could squander these before as it has squandered them in the past: but for the first time in Russian and Soviet history, the people appear strong enough not to allow it to happen.

Inequalities emerge and risks are high as the private sector economy develops, reports **Edward Balls**

Economic transformation is under way

DESPITE the chaos, confusion and acrimony which continually dog the government's halting attempt to embrace market reforms, Russia's economic transformation is under way.

Accelerating economic and social change is readily apparent in the bustling street markets and newly fitted office blocks, both in Moscow and regional urban centres. But signs of this emerging private sector economy have yet to be reflected in the government's state-sector dominated economic statistics.

Indeed, a casual glance at the official economic record would suggest that the Russian economy has stood still or even moved backwards over the past year:

- Measured industrial output fell by 18.6 per cent last year and may still be falling;
- Inflation continues to fluctuate between 20 and 30 per cent a month as the government and central bank pump out credits to loss-making state enterprises at very low interest rates;
- There are few signs of the unemployment and bankruptcies which many observers believe will be needed if industry is to be restructured;
- The domestic oil price is still less than a third of world prices, while other energy prices are even lower; and
- Measured living standards per head fell by a half in 1992 compared to the previous year, with the hardest hit being pensioners and other people who depend on state incomes. Since 1985, the average pension has fallen by a quarter relative to the average wage.

But the statistics omit an important element of the Russian economic story: the growth of an unofficial, unmeasured, often anarchic, bnt increasingly significant private economy, which appears to be liberating a vibrant, entrepreneurial streak in a growing number of Russian citizens.

Thus new activity is not restricted to the capital city alone, although Moscow is, not surprisingly, ahead of the rest of the country. Street markets, private banks, unofficial taxi services, new restaurants and stores selling imported goods are springing-up across the republic.

The growth of this private economy has been encouraged by the liberalisation of most state-controlled prices last year; the privatisation of over 33,000 small-scale state enterprises in 1992; the government's nascent medium and large-scale privatisation programme; the removal of many state regulations on private activity; the withering away of the state's ability to enforce those regulations which remain; and the seizure and exploitation of stale assets and resources by managers, workers and local bureaucrats.

Russia is, as a result, developing a dual economy: a state industrial sector, biased towards military production, weakened by the collapse of trade between Russia and the other republics, dependent on government subsidies for its survival, bnt responsible for social infrastructure and the employment of the mass of the population; and an unofficial, sometimes illegal, private economy in which most agents are engaged in trade and the provision of services, rather than production, and in which much of the economy's \$35-40hn annual export earnings circulate.

The activities of the state sector dominate the official production statistics and the state budget. Experts at international financial institutions estimate that the government distributed explicit budget subsidies equivalent to a little over 20 per cent of gross domestic prodnct last year, mainly to state enterprises. Bnt the same amount again was paid to enterprises through off-budget credits from the central bank and the ministry of finance, channelled through the state banking system at very low interest rates.

But it is the new private sector, emerging from the black economy of the former Soviet union and reminiscent of the wild capitalism of nineteenth century America, which seems to be the main dynamic force that generates and distributes wealth throughont the economy. This unofficial economy is serviced hy the mushrooming, unregulated private banking system, whose growing wealth and power is illustrated by the large number of advertisements for Russian banks, paid for in dollars, which appear in this survey.

The activities of Inkombank, a new Moscow-based private bank, are typical of this new private sector. Inkombank has assets equivalent to 212bn roubles, of which 70 per cent are held as hard currency. The bulk of its activity consists of finance of commodity exports through its network of correspondent banks abroad, explains Alexey Kuznetsov, the bank's smart, young first deputy chairman – "we finance exports of fertilisers, copper, aluminium, arms, lumber and construction materials and refined oil," he says.

This private, un-regulated economy has space for many smaller fish. Some are official privatised companies, a sample of which appear later in this survey. Others are individuals who do extra work in addition to, or instead of, official jobs. Vladim, a 28 year-old Moscovite, fluent in English and Italian, earns 18,000 roubles (\$19) a month from teaching. But be snpplements these meagre earnings from taxi driving, at which he can earn \$20 a day and pays \$60 a month to the local "mafia", who control taxi access at the Olympic Penta botel.

The growth of this unofficial economy partly explains how the government has been able to maintain support for reform, despite rampant inflation and falling real wages – "people do not care too much about their wages," ways one senior western official based in Moscow. "Much of the important economic activity now occurs outside the wage economy."

But this dollar-based economy means a growing gap in income and living standards between those with the power and influence to take, and flaunt, their share of this new wealth and those who remain dependent on the state sector for their livelihood. It has also meant growing public resentment of the associated corruption and illegality.

"Pensioners are not primarily concerned with how badly off they are, or bow hungry," says social affairs minister Ella Pamfilova. "Price increases are only their second priority. Their biggest concern is crime and corruption."

The government's problem has been to manage the political reaction to this growing inequality and lawlessness, while keeping the reforms on track. Over the past year, it appears to have managed the former at the expense of the latter. Support for reform remains surprisingly strong, boosted perhaps by the populist mass privatisation programme. But that is partly because the government, or at least the relevant ministers in the increasingly divided cabinet of ministers, have failed to take the tough decisions needed to bring inflation under control.

The reformers have tried to pin the blame for inflation on Mr Viktor Gerashchenko, the central bank governor, who has been portrayed as an enemy within, recklessly flooding the economy with inflation-

Continued on facing page

THE G7 AID PACKAGE

Bilateral governments	
Public debt rescheduling	\$15bn
Export credits and guarantees	\$10bn
International Monetary Fund	
Systemic transformation facility	\$3bn
Stand-by loan	\$4.1bn
Currency stabilisation fund	\$6bn
World Bank	
World Bank loan commitments	\$3.4bn
Import rehabilitation loans	\$1.1bn
Oil sector loan	\$0.5bn
European Bank for Reconstruction and Developm't.	
Small and medium enterprise fund	\$0.3bn

RUSSIA 3

Contrasting lifestyles: an elderly woman in Moscow struggles home through snowy streets with cartons of milk. Living standards fell by half last year, severely hurting pensioners depending on state incomes

New-found wealth – for some - also brings problems of stark inequality. Here a youthful entrepreneur, right, exchanges dollars for roubles at a mobile bank in a Moscow street. The city's private economy is vibrant.

Continued from facing page

ary credit. His stubborn insistence on supplying credits to other former Soviet republics, to the tune of 10 per cent of Russian GDP in 1992, has certainly made controlling inflation very difficult. Many reformers argue that Mr Boris Fyodorov, the finance minister, should take over the central bank governor's job.

But the responsibility for high and rising inflation belongs as much to the government. For cutting state subsidies to state enterprises, however necessary and desirable, means bankruptcies, unemployment and the risk of social discontent.

Unemployment benefits are minimal, less than a fifth of the average wage, while many social benefits are still provided by enterprises. In these circumstances, neither the government nor the central bank have been prepared to ignore parliamentary opposition and start to cut state subsidies.

"The central bank should be responsible for monetary policy while the bankruptcies of state enterprises are a matter for the government," says Mr Alexander Khandruyev, a deputy governor at the central bank.

"But if we simply stop credit emissions, then our government would face mass strikes tomorrow."

The result has been rapid inflation. Total credit grew, as a result, by 3,140 per cent over the course of last year while prices rose by 2,500 per cent. The government had some success in raising tax revenue, particularly from the value-added tax which now accounts for a third of revenue collected. But on- and off-budget credits accounted for 40 per cent of GDP last year.

If anything, the government has moved further away from controlling its budget deficit in recent months.

Recent monetary data had been relatively encouraging, with the monthly inflation rate falling to 21 per cent in March from 26 per cent in February and the growth of central bank credit dropping into single figures. But a rise in government spending and bank credits in the weeks preceding the referendum are expected to push inflation back towards 30 per cent over the next few months.

Mr Sergie Vassiliev, director of the government's Centre for Economic Reform, confirms that government demands for credits from the central bank increased in the weeks before the referendum - "thirty per cent monthly inflation reflects the government's inability to control its expenditures," says Mr Vassiliev.

The central bank and government had agreed in early April that credit emission in the second quarter should be limited to 3,000bn roubles, of which 1,300bn roubles would go to the government's budget. But the consequence of pre-referendum pledges to raise the paltry level of pensions and the minimum wage, and increase in subsidies to the agricultural and energy sectors, mean that the government deficit is already expected to be 2,300bn roubles.

The government's failure to curb inflation is therefore a direct result of its desire to avoid the harsh distributional consequences of imposing tough budget contraints on the state enterprises, many of which would be bankrupt. But the resulting inflation is proving to be both an obstacle to reform and inegalitarian, for two reasons.

First, the inflationary credits are not tied to industrial restructuring and thus allow the state enterprises to avoid commercial realities. So long as state enterprises continue to receive credits at negative real interest rates, they face no incentive or necessity to restructure.

According to various western financial institutions, neither macroeconomic stabilisation nor enterprises restructuring can proceed without a rationalisation and reduction in the volume of state subsidies.

Second, high and unstable inflation is one reason why the flow of investment into Russia has so far been negligible. No sensible investor wants to hold rouble assets.

The result is an artificially low exchange rate, falling towards 1,000 roubles per dollar, which leaves the average wage equal to a mere $30 a month and makes imported goods too expensive for most citizens.

The reformers are relying on western aid to square the circle by substituting western budget support for inflationary central bank credits.

High and unstable inflation is one reason why investment flows into Russia have so far been negligible

The government's financial programme envisages that total available credit will fall from 40 per cent in 1992 to 17 per cent of GDP by the final quarter of this year. But total domestic credit falls to 7.2 per cent of GDP, consistent with a monthly inflation rate of 5 per cent, while western aid fills the gap.

Western officials appear increasingly sympathetic. Officials from the Group of Seven industrialised countries say they are determined not to see a repeat of last year, when much of the original $24bn aid package was not disbursed because the Russian government was unable to meet the IMF's tough financial conditions. At their meeting in Tokyo four weeks ago, the G7 foreign and finance ministers announced a headline figure of nearly $44bn of assistance to Russia over the next year from the IMF, the World Bank and to bilateral aid.

Senior officials at the group of seven industrialised countries envisage that budget support could become available over the next few weeks following recent negotiations between the reformers and the International Monetary Fund.

The IMF is now offering each former Soviet republic fast disbursing aid - labelled a 'systemic transformation facility' - half of which would be paid immediately to any government demonstrating a 'credible' reform strategy. For Russia this facility will provide $3bn.

G7 officials list four key conditions which should be met before funds can be released:

● Strict limits on central bank credit creation;
● A rise in interest rates;
● Significant reductions in all state subsidies;
● A viable budget programme that is consistent with low inflation.

By helping the government to manage its distributional dilemma, the western hopes to help the reformers fight off the threat of hyperinflation and start the difficult process of restructuring and slimming the military sector, while the nascent private economy continues to grow. The challenge for the west is to ensure that aid does substitute for central bank credits, rather than merely adding to their sum, and is closely tied to industrial restructuring.

That, according to World Bank officials, means ensuring that general subsidies are cut so that the social safety net supports the unemployed rather than loss-making enterprises, while remaining subsidies to large military enterprises are time-limited and linked to specific transformation plans.

The G7 strategy is risky. Senior officials at both the World Bank and the IMF fear that, however committed the reformers in Moscow, their inability to control inflation combined with Russia's lack of market infrastructure mean the western money will be wasted. They are worried that the reputations of both the World Bank and the IMF will be damaged in the process.

Certainly, if aid is to materialise and reforms are to progress, the Russian government will have to be considerably more bold, and willing to take greater political risks than it has been in recent weeks during which President Boris Yeltsin's economic appointments have seemed to suggest he is less than fully committed to reform. But if it works, western aid might, in the words of one senior western official, "grease the wheels" of Russia's economic transformation by "buying time for the invisible hand to do the work."

By injecting dollars into the economy through government channels, the west hopes to enable the reformers to control inflation and mitigate the growing inequality that the developing private sector economy is bringing.

The risks are high – that is the nature of the G7's gamble.

KEY FACTS

Area	17.08m sq.km.
Population	148.8 million (mid-1992)
Head of state	President Boris Yeltsin
Head of government	PM Viktor Chernomyrdin
Currency	Rouble
Exchange rate (May 20, 1993)	$1=Rbs940 (see chart, P.2)

ECONOMIC INDICATORS

	1992	Latest
Total GDP (Rbs billion)	14,046	n/a
Real GDP growth (%)	–19.0	n/a
GDP per capita*($)	3,220	n/a
Indust. prod'n[1](% change p.a.)	–18.6	–19.7
Oil production (% change p.a.)	–14.9	n/a
Number of firms privatised[2]	46,815	11,174
Unemployment (mean period average)	0.792	1.01
Real average wage (January 1991=100)	55.6	46.0
Currency in circn.(monthly percentage change)[1]	23.4	14.1
Broad money growth (monthly percentage change)[2]	19.9	14.0
Consumer prices (monthly percentage change)[1]	16.6	24.6
Average wage rates (monthly percentage change)[1]	23.1	12.7
Budget deficit[3] (% of GDP)	4.0	8.0
Gross external debt, ($bn, end-year)	67.0	n/a
Current account balance ($bn)	–8.6	n/a
Exports ($bn)	38.1	n/a
Imports ($bn)	35.0	n/a
Trade balance ($bn)	3.1	n/a
Direction of trade (percentage of total 1992)	Exports	Imports
– Ex-Comecon countries	19.7	15.7
– Other socialist countries	9.7	7.7
– Developed capitalist countries	60.1	64.0
– Developing capitalist countries	10.5	12.6

*Notes:*World Bank estimate, 1991; where noted latest figures are (1) Jan-Mar average; (2) Jan-Feb average; (3) budgeted for 1993. Source: Economist Intelligence Unit, Russian Economic Trends (Whurr Publishers), Vneshekonombank, FT Statistics Dept.*

Russia's economy presents many gambles: here a hopeful punter places a bet at the Moscow race track

■ A young Russian, above, is helped by a woman adviser at the Moscow inter-region auction centre when a million shares in the ZIL car factory went on sale this year. The sign behind says: 'Privatisation.'
■ Below, a Muscovite cashier at a local district bank prepares stacks of vouchers for distribution. The Rbs 10,000 vouchers allow purchasers among Russia's 148 million citizens to buy into state-owned enterprises.

Russian officers retraining as tax officers as the country moves towards a market economy Picture: Viktor Korotayev

Edward Balls on the emergence of a new class of shopkeepers

The voucher-led revolution

THE RUSSIAN radicals' reform rhetoric sits uneasily alongside the rather messy and unsatisfactory reality, with one notable exception: the government's mass privatisation programme.

If an economic revolution has truly begun in the former Soviet Union, which many doubt, the driving forces propelling it forward are the mass auctions of small-scale state enterprises, and, more recently, the sale of shares in medium and large-scale enterprises to their managers, workers and the general public.

"Privatisation itself is the creation of a Russian *bourgeoisie*," said Mr Anatoli Chubais, the deputy prime minister with responsibility for the privatisation programme in a recent interview. With more than 33,000 small-scale former state enterprises auctioned off to new owners last year, about half the total employing fewer than one hundred employees, the creation of a new class of Russian shop-keepers is under way.

Officials at the headquarters of GKI (GosKomImushchestvo) – the state property committee managing the privatisation programme – say sales this year suggest that the momentum behind the small-scale auctions may be slowing. The best enterprises have already been sold, while the continuing confusion over the privatisation of land and real estate are making life difficult for new small businesses.

Maxim Boiko, a senior adviser to Mr Chubais, points to the proliferation of street kiosks selling imported goods on the streets of Moscow and many other large cities as evidence of the appetite for private enterprise and obstacles to future progress. "The kiosks are a good thing," he says. "But they also indicate that the real estate market is not working."

But while the small-scale effort has wearied, the privatisation baton has been handed on. Last summer, the government announced it would auction medium and large-scale state enterprises by issuing vouchers to the general public by the end of the year.

In December, when voucher auctions for medium and large-scale companies began with the sale of Moscow's Bolshevik cake factory, 18 companies were sold. In April, 558 enterprises in 54 regions were up for tender. The reformers' target of 5,000 sales by the end of the year is beginning to look realistic.

In total, 1,547 of the 26,000 companies which employ more than 200 workers or have assets valued over Rbs1m, had been sold by the end of April. Of these, 372 enterprises employ more than 1,000 employees and account for 86 per cent of total employment in privatised enterprises.

Most privatised enterprises are largely owned by the workers and managers, who generally choose to exercise their right to purchase 51 per cent of the available shares. A further 30 per cent of equity is sold to the general public using voucher auctions while the state generally retains a minority stake.

Russians in most regions have been issued with rouble privatisation "vouchers", which have a nominal face value of Rbs10,000 – a sum that can be topped up with cash. The vouchers can be sold for cash, used to purchase shares in their place of work, placed as a bid for a limited quantity of shares in the companies during the two weeks they are up for sale at auction houses in large cities, or "invested" in one of the emerging investment trusts which hold individual company shares on behalf of their investors.

Not surprisingly, privatisation has run into opposition from federal bureaucrats and parliamentarians who have most to lose from the sale of state assets. Prime minister Victor Chenomyrdin has been especially sharp in his criticism of the programme. Rumours that Mr Chubais is about to be sacked constantly circulate in Moscow and the provinces.

IN the regions, however, governments – and to a less extent local parliaments – are increasingly supporting the Chubais programme, with 71 regions, out of about 90, organising auctions this month.

In Volgograd, 600 miles south of Moscow, Mr Konstantin Ogloblin is the director of the state property fund that sells property on behalf of the local GKI. He was appointed by, and answers to, the local oblast parliament but is unequivocal in his support for voucher privatisation.

The biggest problem he faces is opposition from the federal property fund, appointed by the Russian parliament in theory to sell federal property on behalf of the GKI, but in practice is an attempt to slow the privatisation process.

"We agree much more with the central GKI than the central property fund," Mr Ogloblin says, explaining that if the federal fund does not act fast enough to sell off the enterprises then the GKI has the power to take control over them. Despite federal opposition, the Volgograd fund has managed to sell off a number of large factories, including the giant Volgograd tractor factory with 26,000 employees. "We advertised the sale of the tractor factory in the central fund bulletin," laughs Mr Ogloblin.

Yet the mass voucher privatisation programme does not receive universal support from reformers. Critics, including the reform economist Grigory Yavlinsky, doubt that privatisation will produce either new investment or restructuring, particularly if worker-shareholders prevent managers from laying off surplus workers.

Sergey Alexashenko, director of the Russian union of industrialists and entrepreneurs and a reform sympathiser, agrees: "In my opinion the government has not chosen the right way," he says. "The main aim should not be rapid privatisation but effective privatisation. We need effective owners who exercise control over their enterprises. Voucher privatisation is a mistake because it is completely ineffective."

At the heart of the debate is the uncertainty about the nature of the property rights that have notionally been transfered from the state to shareholders. In theory, the management has the right to sack workers, shareholders have the right to sack management, and new domestic investors, perhaps with foreign partners, can take control by buying out existing shareholders.

IN practice, the managers remain firmly in control of the newly privatised enterprises – no factory directors have lost their jobs. Anecdotal reports suggest that lay-offs occur but only rarely. And while foreign investment banks are believed to be buying up parcels of shares in enterprises, they have not yet attempted to exercise the property rights these shares theoretically represent.

"Privatisation is a step in the direction of private firms," says one senior World Bank official in Moscow. "But even in five years these "privatised" enterprises are not going to look like western companies."

Officials at GKI accept that the next few years will produce new problems as these newly acquired property rights become better understood, traded and tested. But they argue that such criticisms miss the point.

In its early stages, the aims of the mass privatisation programme are primarily political: to undermine the power of federal bureaucrats while building a mass constituency of shareholders who have a stake in the continuation of reform. "In a limited number of cases, privatisation is allowing people who have ideas about restructuring to get on with it," says Jonathan Hay, a western adviser based at the GKI in Moscow. "But the separation of the state and industry is the only realistic thing that privatisation can achieve in the short-term."

The reformers point to the support for economic reforms in President Boris Yeltsin's recent referendum, and the opposition of federal bureaucrats, as evidence that this strategy is working – "privatisation is about taking away the assets that federal bureaucrats used to control," says Maxim Boiko. "No wonder they are not co-operative."

Anecdotal evidence suggests that, with a typical mixture of enthusiasm and cynicism, the Russian population is prepared to give this new capitalist "game" a go, although the fact that the market value of privatisation vouchers hovers around half their face value suggests they are prepared for disappointment.

Interrupted while filling out an application form in the Volgograd auction house and asked why she was buying shares, 20-year-old Lena Bruzgunova reacted sharply: "What would you do if you were given a voucher?" she asks.

And what can she expect in return for it?

"The voucher is too little," she replies. "But maybe the shares will pay some interest some day. Privatisation may stop in a few months, but it may be the basis of our future. We don't know what the future holds."

Edward Balls and Gillian Tett meet the new breed of entrepreneur

Mass privatisation in practice

THE RUSSIAN city of Volgograd, 600 miles south of Moscow, is at the forefront of the government's privatisation drive. Close co-operation between the regional branch of the privatisation ministry and the local parliament controlled state property fund, with advice from the International Finance Corporation – the private sector investment arm of the World Bank – have enabled the region to privatise 338 small-scale state enterprises.

Since mass voucher privatisation began in Volgograd in the beginning of February, 50 medium and large-scale enterprises have been sold, ranging in size from a few hundred to 26,000 employees. But although all of them claim to be moving towards market reforms, "privatisation" often means very different things to Russia's new entrepreneurs.

So what does privatisation really amount to for managers, workers and shareholders in a selection of newly privatised enterprises in the city of Volgograd and the surrounding countryside?

President Boris Yeltsin signs for his privatisation voucher at a local bank in Moscow. The vouchers, each worth 10,000 roubles, are given to all Russian citizens as part of the economic reform programme

Traders on the floor of the Moscow commodities and futures exchange shout bids for privatisation voucher futures. Vouchers can be used to purchase stock in privatised industries

The dress-maker – a new-style entrepreneur

BACK in the days of Soviet state planning, Mrs Lilia Tataleyeva's Volgograd dress shop used to sell two designs of Russian raincoat – one for summer, and one for winter. Today the newly privatised shop is undergoing a fashion revolution.

As in many privatisation success stories, the main factor in the turnabout has been the entrepreneurial energy of one individual.

A forceful woman who dresses with elegance, Mrs Tataleyeva spent five years working as the frustrated director of the state-owned shop under the control of the local ministry – "before, we had to send all our designs to the state sewing factory. By the time they were ready, fashion had changed," she says.

Eighteen months ago, Mrs Tataleyeva along with 17 colleagues launched a bid for the enterprise. The collective beat three other bids with an offer of 2.5m roubles, subsequently reduced to 1.7m ronbles in accordance with state regulations which favours bids from worker collectives by offering a 30 per cent discount.

"Now that seems a very low price. But then it was a very high price," says Mrs Tataleyeva, who has succeeded in paying off 1m roubles of the credit they took at 60 per cent annual interest.

With the new dress shop making a monthly turnover of about 800,000 roubles, she is confident she will soon pay off the rest of the loan, although the galloping inflation that has reduced the value of the loan is also making a mockery of her attempts at financial planning.

But Mrs Tataleyeva revels in her new responsibilities: "We are currently making a summer collection and these days I cannot blame anyone else because it is up to me if it fails," she says, adding cheerfully. "Most people do not understand about privatisation. The others who work here get their monthly wages and do not worry. But I do this all for myself. It is all me."

The wholesaler – building a retail empire

THEY call her "the iron lady of Volgograd." With blue-rinsed hair, carefully applied make-up and the compulsory fax machine on her desk, Mrs Tamara Sitnikova, the 47-year-old executive director of the "Boots and Shoes" retail store, is typical of the modern Russian executive women, of which there are a surprisingly large number.

Mrs Sitnikova must be one of the first Russian managers to be head-hunted. Previously the manager of a state wholesale distributor, she was invited by the five other shareholders to become a shareholder and manager of "Boots and Shoes", previously a state boots shop, when it was privatised last summer.

Her experience in the state system means that "Boots and Shoes" is tackling one of small-scale privatisation's biggest deficiencies – the lack of a reliable and competitive wholesale network. Mrs Sitnikova has tried to fill this the gap by buying two lorries which she can use to distribute goods to companies which cannot themselves buy store goods in bulk. In time, she hopes to create a new and bigger company by taking over some of the small shops she supplies.

The store has retained all its original 23 staff, two thirds of whom are contract workers, but it has been forced to diversify away from footwear as demand dwindled and now also sells food, cakes and popcorn. Freedom from direct bureaucratic control has advantages but also new problems. "Taxes, taxes, taxes" are Mrs Sitnikova biggest worry. She complains that 80 per cent of the store's profits go to pay eighteen different types of taxes.

Mrs Sitnikova openly admits that she models herself on Mrs Margaret Thatcher, the former British prime minister. "People tell me that we are pretty much alike both in character and in our leadership styles," she says with a smile. Her speech also has a Thatcherite tinge. "The key to privatisation is ownership," she says. "If you own a shop or have shares in a company, you feel you really are somebody."

Does she have any other personal ambitions? "There are not many women who are number one in Russia," she replies. "But my view is that only a woman can save our country. Maybe we do need a woman as president too."

Mrs Tamara Sitnikova: "the iron lady of Volgograd"

Mrs Lilia Tataleyeva: a keen eye for the new fashion trends

Mixed views at the sweet factory

IN a country where factory directors have long been used to diligently fulfilling state orders and plans – or at least, to make a show of doing so – it is rare to find directors in Volgograd who are prepared to speak out openly against the government's privatisation plans. But at the newly privatised Lenin Volgograd Sweet factory, the directors are less than enthusiastic about privatisation.

"All this privatisation is a bit like a new state plan – a new five-year plan," says Mr Valentin Makhonin, the managing director, who admits that faced with a choice between market anarchy and state-planning stability he favours the latter.

The motive behind the Lenin sweat factory's move to the market was not an ideological conviction or a new-found market, but instead a weary obedience to this new state directive. Under instructions from local government officials, the directors transformed the enterprise into a shareholding company and "sold" 51 per cent of the shares to the workers.

So far, Mr Makhonin claims the exercise has had only a limited impact on the way the factory is run. "The factory works as before. We sell the sweets to the same places, and receive the orders from the same places – nothing has really changed very much in the way we make sweets."

But the plant has been hard hit by the breakdown in inter-republican trading links. It lost its main supply of sugar from the Ukraine and suffered a 40 per cent fall in output, forcing a lay off of 200 of its 1,000-strong workforce. Another 200 workers are expected to lose their jobs later this year.

Enthusiasm at the washing machine plant

MR Anatoly Tyulpin, managing director of Volgograd's "Red Dawn" washing machine factory, can hardly wait for his enterprise to be privatised. Fifty-one per cent of the shares in the enterprise, which produces 190,000 washing machines a year and employs 700 workers, will be owned by the workers and directors. But Mr Tyulpin is confident he will retain control.

Mass privatisation may be laying the foundations for the eventual emergence of a thriving western-style stock market which would allow badly managed companies to be taken over, but, for now, it is consolidating the power of incumbent managers.

Red Dawn will be run by a management committee of the director and three others, but Mr Tyulpin says he will have two votes.

Deciding what to make and how many people to employ will be the management's perogative.

"Of course people would like to stay working here," he says, "but it will be up to the management of the factory to decide who to fire."

Mr Tyulpin plans to expand production by making metal-cutting machine tools and expects to shed 150 workers. Surprisingly, the shop-floor workers at Red Dawn appear to accept the management's right to manage.

"People are expecting lay-offs," says Uri, a 30-year-old engineer. "But the first people to be fired will be the drunks, the ill-disciplined and the lazy-bones."

The farmers – once bitten, twice shy

WHILE government officials in the city of Volgograd are trumpeting the merits of the revolutionary new privatisation programme, out in the rural village of Gorodizhe, 30km outside the city, the propaganda is being greeted with a distinct sense of de ja vu.

Eighteen months ago, the village's state farm set itself up as a shareholding company – an experiment which ended after only a year, when the villagers decided they were fed up with the new "share" system.

The reason for the villagers' disillusionment lie partly in local politics and partly in the problems of delivering on the exuberant promises being made for the new market system.

The man who was behind the farm's original decision to turn itself into a shareholding company was its energatic, entrepreneurial director, the 52-year-old Mr Anatoly Chibatkov.

Believing that privatisation would allow the farm greater freedom in economic decision making, 18 months ago he decided to set the 7000 hectare farm up as a shareholding company.

Shares were distributed and sold to all farm workers, promises were made about future dividends and profits, and Mr Chibatkov set about trying to make the farm profitable.

But after a year the farm workers had received few dividends, and production continued to fall.

Reaping the popular discontent, Mr Chibatkov's rival political faction in the village pushed him out of office, bought back all the shares, and turned the farm back into a "collective" again.

"They gave us all these bits of paper and they were worthless," said Antonina, a 71-year-old pensioner, echoing a widespread cynicism over the affair, although most villagers still say they will use their recently received privatisation vouchers.

Soldiers of the Kremlin Honour Guard march from the Lenin Mausoleum in the Red Square. In March this year, the Kremlin regiment was transformed into a new presidential regiment under the direct control of President Yeltsin. Picture: Sergei Karpukhin

Russian President Boris Yeltsin, left, waves as he walks with US President Bill Clinton to the Sunday morning session of their summit meeting in Vancouver, British Columbia, earlier this year. The Clinton administration announced $1.6bn in aid to Russia

FOREIGN POLICY: courting western political and financial support remains paramount, reports **Andrew Gowers**

Hardliners retain formidable blocking power

FOR 45 minutes last December, government ministers from north America and all over Europe found themselves half-wondering whether their world was coming apart.

If their ears had not deceived them, Mr Andrei Kozyrev, Russia's foreign minister and a man known for his outspokenly pro-western views, had just told a gathering of the Conference on Security and Co-operation in Europe that his country's post-communist policies of working with the west were at an end; that its interests elsewhere set limits to its rapprochement with western Europe; and that Nato was courting confrontation by interfering in the affairs of the former Soviet bloc.

He had, in other words, just appeared to junk the whole strategy that had made the end of the cold war possible – and demanded an end to sanctions against Russia's ally Serbia to boot.

Fortunately it was no more than an appearance. After hectic consultations, Mr Kozyrev coolly took the podium again, saying his earlier speech had been a pack of lies – a rhetorical warning to the west of what would happen to Russian foreign policy if President Boris Yeltsin were swept from power by his conservative and nationalist opponents.

For western governments, it was a stunt in the worst possible taste but one not without resonance. Indeed, the brief alarm Mr Kozyrev managed to generate in Stockholm was eloquent testimony to the uncertainties that continue to shroud Russia's bold attempt to align itself with the west and join the club of great capitalist democracies.

The broad lines of this strategy are not in doubt, and as the foreign minister said they will not be so as long as President Yeltsin survives. On the contrary: as his political travails at home have grown in recent months, he has come to rely all the more – like Mikhail Gorbachev before him – on foreign policy successes.

Due to hardline opposition, several important international treaties are still awaiting ratification

Courting western political and financial support, of course, remains paramount, as symbolised in the Yeltsin-Clinton summit in Vancouver, in the Russian leader's prospective attendance at the Group of Seven summit in Tokyo in July, and in his desire to sign a free trade deal with the European Community as soon as this summer.

But other important relationships have also been receiving increased presidential attention in the past year – those with China (often cited as an economic model for Russia by those who oppose Mr Yeltsin's reforms), South Korea (a significant potential investor and rival to Japan) and India. In the Middle East, ties have been repaired with Iran and with Syria.

If it once seemed as if Russia's domestic woes were causing it to turn in on itself, the retreat from the world is now over. There may not yet be an over-arching vision of Russia's international role – no easy matter for a country straddling two continents, a third of the earth's land surface and a patchwork quilt of ethnicities and religions. But that it wants to be a player is not in doubt.

In recent months, however, Mr Yeltsin has not been immune from attack on the foreign policy front. And as a result, the government has been forced to trim its sails on some issues and to set out a position that is more distinctive, less automatically acquiescent with the west, on others. As Mr Sergei Karaganov, head of Moscow's Institute of Europe and a foreign policy adviser to Mr Yeltsin, puts it: "We are paying the price of saying 'yes' even before we were asked. Now we have to fight for our interests – and some of them will be different from those of the west."

For the opposition in parliament, Mr Yeltsin's pro-western posture is a useful stick with which to beat him in their domestic power struggle: it accuses him of kow-towing and failing to defend Russia's vital interests, and has been demanding Mr Kozyrev's dismissal for the best part of a year.

Hardline nationalists and communists go further, advocating the reconstitution of the former Soviet Union or aggressive measures to protect the 25m ethnic Russians living outside Russia's borders, the pursuit of arms sales to renegade states in the Middle East such as Iraq and Libya, and support for fellow Slavs in Serbia against international pressure.

More than political slogans are at stake in this latter-day version of the age-old Russian battle between slavophiles and westernisers. The hardliners can command up to 40 per cent of the votes in parliament, and although they do not thus far appear to have had much impact on Mr Kozyrev's day-to-day diplomacy, they do have formidable blocking powers when combined with the third or so of centrist deputies who tend to side with them on foreign policy questions.

The result is that several important international treaties are still awaiting ratification, including the Start 2 US-Russian strategic arms limitation agreement which parliament says it has no intention of ratifying until it receives Mr Kozyrev's scalp.

In recent months, President Yeltsin has not been immune from attack on the foreign policy front

Senior foreign ministry officials do not attempt to disguise their frustration with such parliamentary antics.

"We can't talk to these people," says Mr Sergei Yastrzhemsky, Mr Kozyrev's spokesman, of the government's "red-brown" opponents. "They don't know any words of argument, only tired old ideological clichés."

As one example of the trouble they can cause, he cites a treaty betweeo Russia and Hungary which deputies have blocked on the grounds that it contains an apologetic reference to the 1956 Soviet invasion.

Whether these disputes have a much broader political effect is hard to say. Even Russian foreign policy pundits agree that most of the populace are far more pre-occupied with the struggle for daily survival than with esoteric questions concerning their country's role in the world.

But such issues can on occasion take on symbolic significance in a country many of whose citizens still feel confused and humiliated by defeat in the cold war and by the loss of empire. The dispute with Japan over the Kurile islands, which the Soviet Union occupied at the end of World War Two and which Tokyo badly wants back, is one example.

Repeated attempts to arrange a Japanese visit by Mr Yeltsin over the past year have foundered, at least in part because the Russian president has felt it politically impossible to offer sufficient concessions. The issue will inevitably continue to bedevil Russian-Japanese relations, and limit Japan's willingness to provide Moscow with aid outside the multilateral framework of the G7, for the foreseeable future.

The conflict in the former Yugoslavia, where Russia has been broadly supportive of western-led mediation efforts, has lately become another domestic political football. Under fierce attack in April for not showing sufficient solidarity with the Serbs, the government sent its own peace envoy to Belgrade and felt obliged to distance itself from western policy by abstaining in a UN Security Council vote on tightening sanctions.

The alternative policy prescriptions of Mr Yeltsin's sworn enemies do not stand up to serious inspection

It was not until after his referendum victory on April 25 that President Yeltsin felt bold enough fully to rejoin tha international consensus and issue an unequivocal ultimatum to Serbia.

Mr Karaganov of the Institute of Europe says the west has no reason for concern at such manoeuvrings – "almost nobody is interested in Serbia here, but the opposition just plays it up to make things difficult for the administration, and the administration has to bow to that," he says. "It could just as easily be replacad tomorrow by another symbol."

As for the extremists' slavophilia – "the plan to build up a Slavophile world is a dream. Nobody here is really thinking of it."

Like others in the Moscow think-tanks, Mr Karaganov believes that the debate on foreign policy is just another weapon in the battle for power. And it is certainly true that the policy prescriptions of Mr Yeltsin's sworn enemies do not stand up to a moment's serious inspection. Thosa like Vice-president Alexander Rutskoi who advocate alliances with pariah states such as Iraq and North Korea, for example, claim Russia could earn huge sums of money from arms sales in the process – a patently ridiculous notion since neither has the means to pay.

"Those who call for alliances with irresponsible states," concludes Mr Karaganov, "are merely trying to provoke hostile reprisals from the west. For it is only under those circumstances of isolation that they stand a chance of coming to power. But actually, even most nationalists understand that we need the outside world for its technology, its products, even its culture."

In that last sentence, perhaps, lies one of the two principal dangers for Mr Yeltsin's current foreign policy course. For in tying itself so closely to the west and its reforms so directly to prospective western financial assistance, the government may eventually face a backlash if aid on a scale sufficient to make a difference fails to materialise.

Public opinion has been disappointed on this count before, with less than desirable political consequences. As Mr Karaganov puts it: "People were romantic about this aid. They were promised so much, and so little was delivered. Then when they saw it was not coming, they instantly became more nationalistic."

The other big danger is that such tendencies could be fuelled by conflicts in Russia's immediate neighbourhood, especially if Russia itself were somehow to become militarily embroiled.

That is not a far-fetched notion, as western governments are uneasily aware.

Roadside stall: minced meat for sale at an open air market in western Russia

A Russian family near Moscow busy planting potatoes at its dacha (country house) this month

Andrew Gowers on the 'near abroad': Russia and the Commonwealth of Independent States

Struggle to unbundle the monolith

LAST MONTH, political leaders from one of Russia's volatile and ethnically diverse southern border regions met to discuss forming an economic association. They swiftly got into an acrimonious row. The subject? The varying sums different areas were charging for deposits on re-useable bottles, which had caused an increasingly disruptive bottle arbitrage trade around the region.

Mr Sergei Shakhrai, a top adviser to President Boris Yeltsin, tells this anecdote to underline the potential for friction among the multifarious population groups of the former Soviet Union – "you start with a difference over bottle deposits," he says. "But in that you have a potential ethnic conflict waiting to erupt."

The pattern repeats itself in different forms throughout what Russians call the "near abroad," and to an extent in Russia itself, as peoples long condemned to uneasy cohabitation seek to redefine their relations and in some cases to redraw the map.

On the southern periphery, in the Trans-Caucasian and central Asian republics, ethnic and religious wars have claimed thousands of lives, uprooted thousands more from their homes, and embroiled Russian forces in controversial peace-making or peace-keeping exercises. In the Baltic states, tensions run ever higher over the political rights of their substantial Russian minorities, raising a lingering question-mark over the complete withdrawal of Russian forces.

Most difficult of all, Moscow is engaged in a highly-charged and interrelated set of disputes over assets, trade, military forces and territory with the second biggest former Soviet republic, Ukraine, as the latter gropes for full independence from Russia.

Disentangling the affairs of the Russian and Soviet empires was always going to be a nightmare. The 15 successor states are not merely grappling with the legacy of centuries of more or less repressive rule from the centre. They are faced with the task of unbundling the most monolithic economic and political system in the history of the world. An economy in which central planning distorted all price relationships, and frequently dictated that production of one item be mainly concentrated in one place, finds its nervous system collapsing.

Inter-republican trade has all but broken down, for want of the means of payment: several countries, including Ukraine, have left the rouble zone and set out to print their own monies, only to find them collapsing in value more rapidly even than the Russian currency.

Disputes over the military and other spoils are only slowly being resolved. The scope and structure of the Commonwealth of Independent States, supposed to provide a framework for a looser form of association between the former Soviet republics, remain in contention. The potential for conflict is immense: indeed, the surprise is perhaps the extent to which the leaders of Russia and the other republics have thus far managed to keep it under control.

For Russia, by far the largest of the successor states, these issues pose a number of difficulties that require especially sensitive handling.

The conflicts to its south are a constant worry, threatening either to spill over into Russia proper or otherwise to destabilise it through a growing exodus of refugees. The worst and longest-running of these is the war between Azerbaijan and Armenia over the Armenian enclave of Nagorno-Karabakh, in which Moscow has studiously sought to remain neutral but has made sporadic attempts to mediate.

In several cases, however, Russian troops stationed outside Russia's borders are now directly involved:

Communist protesters line up against lines of police in Moscow earlier this year

■ In the central Asian republic of Tajikistan, scene of a violent struggle between Moslem and ex-communist forces last year, they are deployed to police the border with Afghanistan, source of support for the Islamic fundamentalists.

■ In northern Moldova, the Russian 14th army is now keeping a fragile peace between regular Moldovan forces and the ethnic Russian minority of Trans-Dnestr, after intervening on the latter's side in fighting last year.

■ In the fractious and disintegrating republic of Georgia, Russian forces are trying to hold the line in one civil conflict – that between the government of Mr Eduard Shevardnadze and south Ossetian separatists demanding unification with their kin the other side of the Russian border – and are frequently accused (so far without evidence) of involvement in another, between Georgia and separatist rebels in Abkhazia. In all these cases, there is a potentially dangerous ambiguity about Russia's role. Moscow insists that the aim is purely to keep the peace and mediate, but many in the republics concerned suspect that more partisan motives.

Moreover, an effort by President Yeltsin to clarify the position earlier this year arguably made matters worse. In a speech to the centrist Civic Union grouping at the end of February, he said that, given its "heartfelt interest" in suppressing conflicts around its borders, Russia should be granted "special powers" by the United Nations to guarantee peace and stability in the former Soviet Union. No amount of subsequent explanation by the foreign ministry that he was simply talking about the need for UN political or financial support for specific, mutually agreed peace-keeping operations could quite dispel the impression that he was asking the world to give Russia a free hand to intervene beyond its borders.

This is a question of acute sensitivity, not least because of the large number of ethnic Russians – 25m – who live outside Russia. Such minorities in other republics – in Kazakhstan, they constitute nearly half the population – could easily become the object of nationalist passions and a *cause célèbre* in Russia itself. Some even murmur of the risk of Yugoslav-style "ethnic cleansing."

Mr Yeltsin's answer to this danger has been to attempt to hasten integration efforts within the CIS. An emerging "hard core" of Commonwealth members – Russia, Belarus, Kazakhstan and the central Asian republics – have signed a defence treaty with this end in mind.

But that does not ease the worries of those new republics that have chosen to stay outside the CIS framework. Take the Baltic states. In Latvia and Estonia in particular, efforts by legislators to deprive Russian residents of some of their political or civil rights have drawn a series of increasingly blunt warnings from Moscow, with President Yeltsin vowing to halt the withdrawal of Russian troops from the Baltic region. Although foreign ministry officials insist troop withdrawals are proceeding to plan, it remains uncertain whether they will all be out by the previously announced deadline of mid-1993.

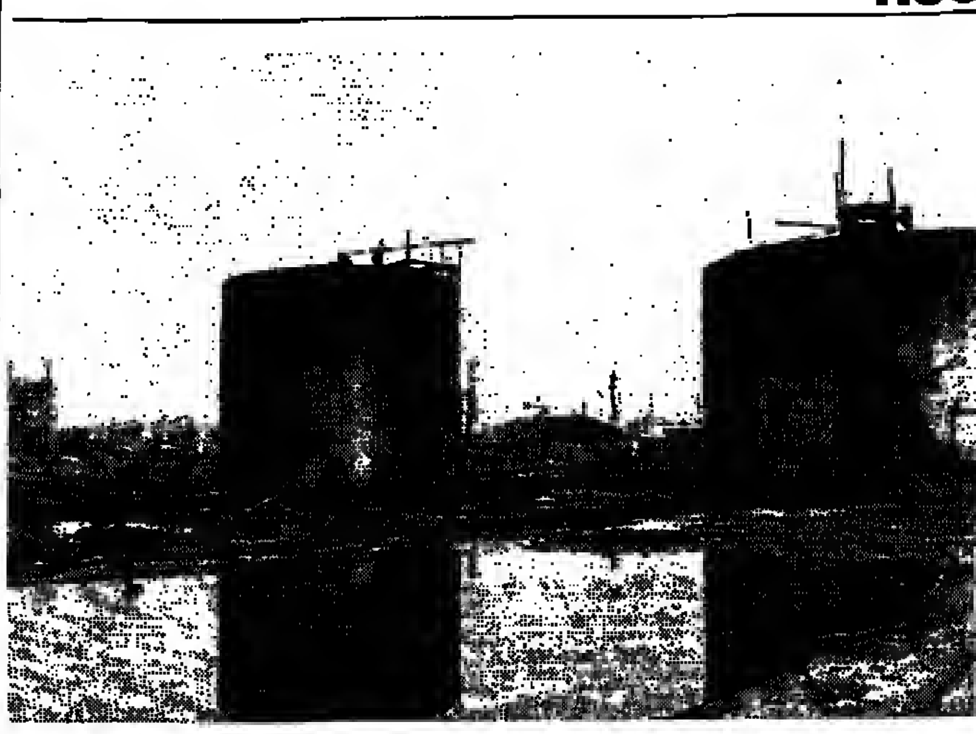
It is the continuing struggle between Russia and Ukraine – which belongs to the CIS but has no interest in signing the collective defence treaty – that provides the greatest cause for concern. Since the collapse of communism, the two states have been in contention over a range of issues, from the division of the USSR's assets and external debt (though the latter question has now been resolved, removing one obstacle to a Russian debt rescheduling deal) to energy supplies, with Russia demanding that Ukraine in future pay world prices for its oil and gas.

The two most serious, however, concern ownership of the Soviet Black Sea Fleet, stationed in the port of Sebastopol in the disputed Crimea region, and nuclear weapons. On both questions, the climate between Moscow and Kiev appears to be worsening. Ukraine accuses Russia of seeking to use the Black Sea Fleet issue to press its old claim to Crimea, and of refusing to recognise its borders in a comprehensive treaty. Russia growls in response. And in its insecurity, Ukraine seems increasingly tempted to hang on to at least some of the former Soviet nuclear missiles and nuclear-armed strategic bombers still on its territory.

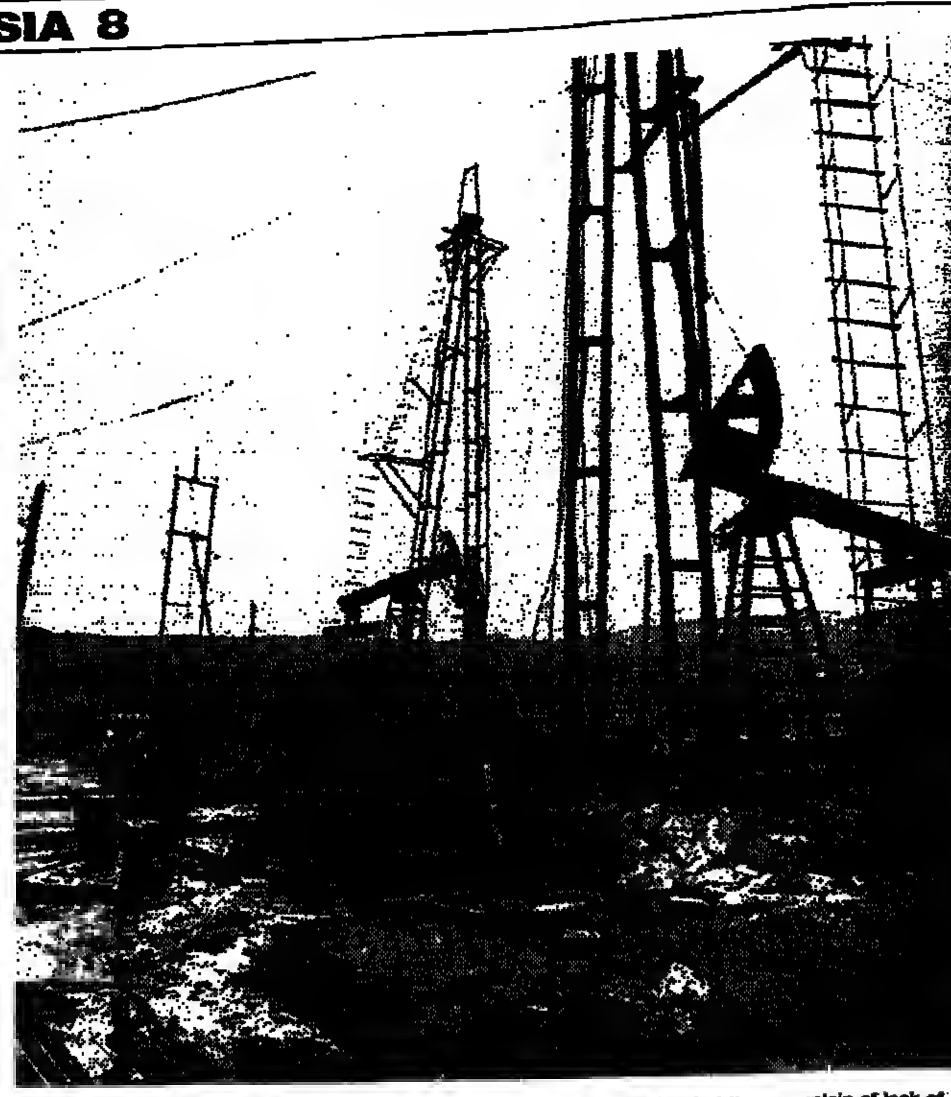
Few believe that the two rivals are likely to come to blows over any of these issues, at least under their current leaders. But the long list of unresolved matters between them should worry western governments all the same. For one thing, with the Russian parliament refusing to ratify the Start 2 strategic arms limitation treaty with the US until its Ukrainian counterpart agrees to go non-nuclear, it could seriously disrupt the international arms-control process.

In the longer term, there are deeper underlying strains which, under changed political circumstances in either Russia or Ukraine, could flare up into something much worse. Given the long history of Russian rule and the fact that Russian nationhood was born in what is now Ukraine, has Moscow genuinely accepted Ukrainian independence? Will it be prepared to allow the CIS to develop into the loose association focused mainly on economic relations that Kiev seems to want?

How Russia decides to handle its biggest former Soviet bedfellow will have an important bearing on its relations with the others – and with the wider world.



Neglected oil fields: production in Russia is falling at an annual rate of more than ten per cent and this year could drop below 350m tonnes – compared to nearly 600m tonnes in the late 1980s.



Oil fields in disrepair – western oil companies would like to invest in Russia, but they complain of lack of institutional frameworks for investment, plus sprawling bureaucracies and a punitive tax regime

Drastic measures are needed to curb the wasteful use of energy by industry, reports **Andrew Gowers**

A relentless slide in oil production

IF there is a single Russian industry where, in theory, reform has a chance of making a palpable difference, it has to be the energy sector.

Nothing would do more to help the economy through the storms of the next few years than an increase in production and exports of oil, still Russia's largest hard currency earner by far. Nothing, unfortunately, could seem more remote.

Oil production has been on a precipitous slide for more than three years, and continues to fall at an annual rate of more than 10 per cent, with output this year expected to drop below 350m tonnes, compared with a peak in the late-1980s of close to 600m tonnes.

Mr Yuri Shafranik, the newly appointed fuel and energy minister, reckons it will be 1995 before the trend begins to bottom out, but even that cannot be taken for granted.

And in that year, unless drastic measures are taken now to curb the wasteful use of energy by industry, Russia – now still the world's largest producer – will find itself facing the need to *import* oil.

The litany goes on. Many of the country's best oil reservoirs have been damaged by inappropriate extraction methods, and the industry lacks the means to repair them. It is chronically short of money to invest.

Russian domestic oil prices are a tiny fraction of the world level; taxes are onerous; and, in any case, few enterprises are paying in full for the oil they buy – one insider reckons that oil producers will this year have in effect given away oil to a value larger than that of the central bank credits that are chiefly held responsible for fuelling inflation.

IF all that were not enough to leave the industry dead on its feet, there is a chronic shortage of production equipment – 80 per cent of the equipment-manufacturing capacity of the former Soviet Union is located in now independent Azerbaijan.

Two things are desperately needed to begin turning things round. One is radical reform of the domestic energy pricing regime, identified by the World Bank as of key importance in Russia's transition from the command economy, but sadly neglected since the Gaidar government's initial burst of reform in early 1992.

A rise in prices towards the world level would stimulate production, curtail wasteful consumption and eliminate the rampant corruption that currently afflicts the industry. Yegor Gaidar himself now reckons that failure to achieve complete liberalisation of energy prices last year was his biggest single mistake.

The other requirement, which would be encouraged by a serious move on prices, is significant investment in opening new fields and repairing old ones by the large western integrated oil companies.

So far, there has barely been a trickle, perhaps $500m, a minuscule amount when compared with the scale of the task, though the Group of Seven leading industrial countries is taking steps to foster more.

THE problem is not a lack of will on the part of the oil majors, most of which still regard the former Soviet Union as one of the great exploration opportunities left to them and several of which have already struck promising deals in other, perhaps better organised, republics of the Commonwealth of Independent States – notably Azerbaijan and Kazakhstan.

The problem is the chaos in Russia. Whenever western oil industry executives gather to talk about Russia, they chant a familiar chorus of complaints: first is the lack of any form of stable institutional and legal framework for investing in the country.

Second, pervasive uncertainty as to who is responsible for what in the central Moscow bureaucracy, in regional government and in the sprawling oil "production associations" that run the industry in Siberia and elsewhere and that are currently being reorganised into large joint stock companies in readiness for eventual partial privatisation.

Third, a punitive and constantly changing tax regime, reflecting the government's ever-growing appetite for funds to plug its budget deficit and, on occasion, local demands for infrastructure spending. Other gripes include the fact that foreign companies tend to be offered only a limited range of investment opportunities – and not usually in the best fields – and the Russian government's tendency to impose difficult-to-meet local content requirements on procurement of kit.

"The lack of a clear framework is still the greatest single obstacle to western oil company investment," Mr Mark Moody-Stuart, managing director of Shell for exploration, told a gathering of western and Russian oil bosses in February.

"For significant investment to take place, there must be a clear general policy, applicable to all ventures, with manifest legislative support to ensure stability. We still seem to be some distance away from such conditions," he says.

This is more than just another industry whinge about "level playing fields." Everyone in the business concurs that the reason why there has been so little foreign investment thus far is that Russia presents a unique concatenation of risks, with very little prospect of adequate returns for a western oil company.

The tax system that has sprung up in the past year, for example – an impenetrable thicket of export tariffs, royalty payments and other levies based on production volumes rather than revenues – almost guarantees that the most promising project will stand little chance of turning a profit.

Apart from a desire for revenue, this reflects deep-seated political opposition to the involvement of foreign capital in exploiting Russia's natural resources – a fact which acts as a residual deterrent to the western oil companies.

"The international oil companies are used to living with political instability, but they have to be assured of some return," says Mr George Reese, an oil expert with Ernst and Young in Moscow. "In the North Sea, the tax regime may be onerous, but at least it's profit-based. Here, the risks are political, technical *and* financial."

That has certainly been the experience of one of the small and brave band of western companies that have taken the plunge: Phibro of the US, with its "White Nights" joint venture in western Siberia.

In operation for two years, the enterprise has yet to come within sight of a return, thanks in part to payment problems with some of its Russian partners and to the government's tardiness in fulfilling a promise to give it a special exemption from export tax.

Clearly Mr Shafranik, the new energy minister who built up a strong reputation as a defender of oil producer interests in his previous job as governor of Siberia's oil-rich Tyumen region, faces a daunting set of challenges. He says he is anxious to attract investment both in upstream and downstream oil projects, and in the equipment industry.

More promisingly from the perspective of western oil companies, he also says he wants to do something about the tax regime – "certainly I'm not satisfied with our tax policy. I try to solve it on my level, and I'm sure it will be solved to the benefit of the oil producers."

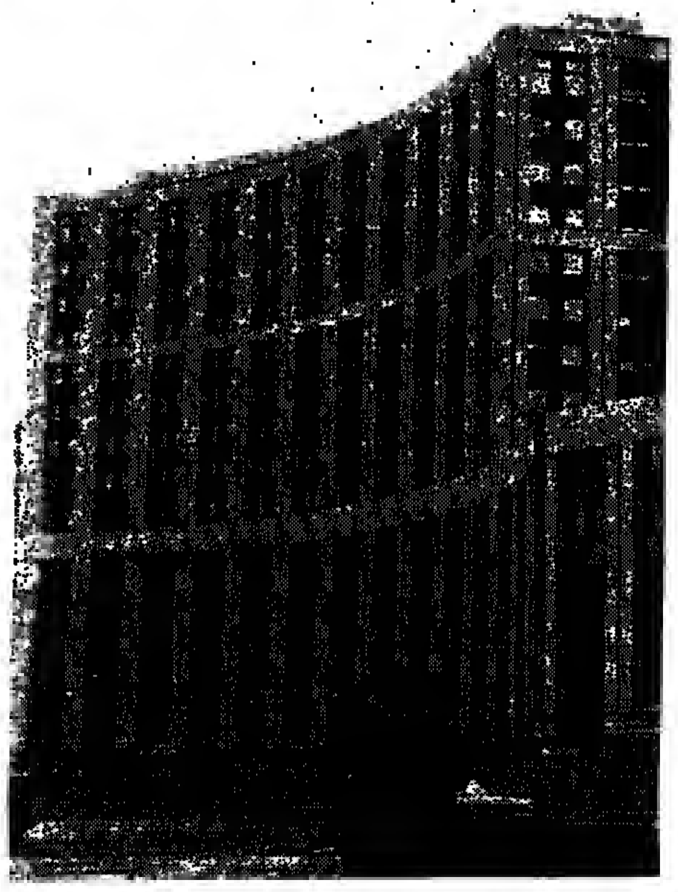
Mr Shafranik's forceful presence in government is among the more hopeful signs foreign oil industry observers can discern amid the gloom. Another is that the authorities appear to have begun listening more closely to the western companies' concerns, with Mr Boris Fyodorov, the finance minister, recently receiving a joint submission from 20 oil majors grouped in the newly-founded Petroleum Advisory Forum.

ULTIMATELY, however, the proof of the government's better intentions will come only through better experience. For this, the industry is closely watching the progress of a consortium of western companies – McDermott and Marathon of the US, Japan's Mitsui and Mitsubishi, and the Anglo-Dutch group Shell – bidding to exploit some of the large gas reserves off Sakhalin island in the Russian far east.

Having won the tender for a feasibility study last year, after much confusion between federal and local authorities, they are now waiting to learn whether they can proceed to the development stage. If this $10bn project goes even moderately smoothly, oil executives say it will serve as a bellwether for the industry as a whole.

A Muscovite buys US dollars with roubles at a local bank. Inflation continues to fluctuate between 20 and 30 per cent a month

Checking the latest exchange rates: curious Russians flock around a van used as a mobile exchange bank on the streets of Moscow



The International Currency Bank in Moscow. More foreign financial institutions are cautiously setting up branches in the capital

Many of Russia's larger banks are pressing ahead with the introduction of market-style novelties, such as credit card services. Some are also putting substantial resources into computerising operations and training their staff abroad. Above: customers queue in a typical Moscow bank

Russia has over 1,600 banks in all shapes and sizes, reports **Leyla Boulton**

Banking on the future

RUSSIA'S bankers are at the cutting edge of what is sometimes described as the country's "wild capitalism" – the reaping of big profits without supervision. But for the more serious banks, attempts to "civilise" the market are crucial to long-term success.

A study financed by the European Commission found that Russia has too many institutions calling themselves banks, with as many as 1,325 in the small category, and 336 medium or large size.

"There exist roughly 80 to 130 commercial banks in Russia likely to comply with western standards for banking activity," says the report, adding that such banks account for least 60 per cent of total capital and assets in the banking system.

But high inflation and instability mean that even the biggest banks offer only short-term finance instead of investment credit needed to overhaul the economy – except when they are acting as transmission belts for cheap central bank credits to industry and agriculture.

And even if the authorities managed to bring down inflation – exceeding 1,000 per cent a year – commercial lending in Russia would remain complicated by a low rate of recovery and the absence of tools to assess credit risk.

"The major problem is finding decent projects and implementing all the necessary conditions. In Russia, we have a lot of good ideas but not a lot of specialists," says Mr Yuri Agapov, chairman of Credo Bank, one of the top new commercial banks. "The problem is not only checking commercial banks but checking projects."

While the country's distorted price structure and tumbling currency enable commercial banks to make big profits on foreign exchange and financing raw materials exports, the health of many banks – in particular those spawned by former state-owned banks or founded by state-owned enterprises – is tied to the inefficient enterprises they support.

THE fragility of the banks complicates the government's ambitions of restructuring enterprises. The central bank itself, traditionally the Communist state's cash-register, has so far failed to organise either an efficient payments system or banking supervision. Its problems are compounded by gaps in banking legislation and a loss of skilled staff to the private sector. Not only is the central bank payments system known to lose documents, it is open to fraud and bribery as witnessed by a big swindle of central bank funds last year through forged transfer documents.

While the state remains paralysed by inefficiency, commercial banks are increasingly taking matters into their own hands.

In response to the central bank system taking weeks to move money from one account to another, groups of commercial banks have set up their own clearing systems. With the help of foreign advisers, including western central banks, the central bank of Russia is trying to overhaul the national payments system, while commercial bankers hope their own clearing systems will somehow spontaneously produce a unified western-style system. Meanwhile, the banks are pressing ahead with the introduction of market-style novelties like credit cards. Some are also devoting considerable resources to computerising their operations and training their staff abroad.

The activities of Incombank, another leading Russian commercial bank, are fairly typical of the more serious institutions which are trying, in the words of one banker, to "be a bank, not a bag of state money".

Only two to five per cent of its loans are "long-term" (which means less than five years in Russia) and they have typically financed real estate deals, construction and the purchase of processing equipment for exporters of Russia's natural wealth. Short-term credit has financed items such as imports of foreign cars for the nouveaux riches, and exports of raw materials.

"Nobody can dictate to whom we should give money," said Mr Alexei Kuznetsov, the bank's 34-year-old acting chairman (the chairman was in the United States for training). "It is not possible to limit us because we doing everything for ourselves." He said the bank had not received "a kopeck" in central bank funds, the distribution of which is also believed to be facilitated by personal friendships with older-generation bosses of the central bank bosses.

Incombank's plans to expand abroad include the possibility of establishing a branch in Cyprus – to service clients who have set up offshore companies in order to avoid taxation and arbitrary treatment by government authorities. While acknowledging that some funds are illegally channelled into offshore havens, Mr Kuznetsov said the bank's first duty was towards its customers – "we know that when our clients put money in western trust companies, they get robbed. When the money is not totally legal, they get miserable interest rates," he said. "You can perfectly understand an enterprise for taking money out of country. It is worried about the fate of its workers, technology, instability."

Although it has been one of the few banks to get its accounts audited by western auditors, the notes to the accounts confirm the difficulties of assessing the health of the bank's loan portfolio as borrowers struggle to adjust to market conditions.

In contrast, Sberbank, the country's nationwide savings bank, has struggled to break free from the stranglehold of the state, which has controlled it for seven decades. But with the best will in the world, it remains trapped by the difficult transition from a state-run economy to a market system, as witnessed by a public squabble with the central bank over just how much independence it should enjoy.

Although it has sought to diversify since it was transformed into a joint stock company with shareholders including the central bank, Sberbank continues to provide housing and home improvement loans at derisory interest rates.

It also provides state-subsidised loans for 22 "socially useful" programmes, like helping victims of the Chernobyl nuclear accident.

Finally, it acts as the state's agent when required, last year using its unparalleled network to distribute privatisation vouchers to Russia's 148m inhabitants.

Increasing banking applications for information technology: computer operators at the Commercial Bank for Innovations in Moscow

IN January, however, Mr Viktor Gerashchenko, the central bank chairman, launched an attempt to take it over, undoing its status as a commercial bank in order – he wrote in a letter to parliament – to "protect" depositors from the possibility of a US-style Savings and Loans crisis: "Acting in accordance with market laws and the realities of contemporary life, [Sberbank] has in fact rejected its previous financial policy, designed to satisfy the small depositor, and is increasingly looking for super profits."

This was a striking accusation, given that the Soviet state has for decades, including under his stewardship as governor of the Soviet central bank, systematically appropriated the bank's deposits to finance the budget deficit. Only recently, Mr Boris Fyodorov, the finance minister, managed to get Sberbank to raise interest rates paid to depositors after the state repaid money owed to it.

IT is against this chaotic background that the small number of foreign banks with representative offices in Moscow are cautiously dipping a toe in the Russian market by setting up branches.

But they remain wary of fresh lending after Vneshekonombank, the Soviet bank responsible for servicing the former Soviet Union's foreign debt, defaulted on payments and froze billions of dollars belonging to foreign companies.

Under pressure from the Russian commercial banks, which fear the westerners simply want to grab their prized hard currency deposits, the central bank recently produced rules limiting foreign banking activity in Russia.

But the rules are vague – saying that foreign banks will not exceed an as yet unspecified percentage of total banking activity – that Mr Alexander Khandruyev, a deputy governor of the central bank, suggests they are intended as a deliberate fudge to reconcile conflicting interests.

The downside to the Russian banks' tumultuous growth is the central bank's inability to take on the challenge of supervising them to enhance public confidence in the sector.

Mr Georgy Matiukhin, the former chairman of the central bank, said in a recent interview that finding skilled people to do that job had been his greatest failing – even his supervision chief had left to head a commercial bank.

The central bank sharply raised minimum capital requirements this year to try to squeeze out smaller institutions that are not performing banking functions and in some cases have been set up to abuse central bank funds or run off with deposits.

The EC report says this would mean that 90 per cent of banking institutions would have to close down or merge with others, but no restructuring has yet been visible so far.

The central bank's ability to enforce its own rules, and fully switch from the role of state monopoly to market regulator, has yet to be proven.

Leyla Boulton on problems in exploiting Russia's vast resources

Delays on mining deals

IT HAS been a turbulent year for trying to mine Russia's huge wealth of precious metals, stones, and non-ferrous metals.

For foreign companies, which have been told their investment is crucial to help Russia switch to a market economy, it has been a time of mouth-watering opportunity and frustration.

Despite an abundance of possibilities, virtually no western company can yet claim to have struck a deal because of the state's slow progress in establishing a clear framework for foreign investment in this rich sector. This is not to say there has been no progress. But the authorities are still coming to grips with new legislation that provides for the tendering of all new deposits and a western-style licensing system.

Meanwhile, fledgling Russian entrepreneurs have successfully lobbied for support against foreign competition in developing the country's natural resources.

One of these entrepreneurs is Mr Andrei Chuguyevsky, who has deftly – some would say deviously – combined economic nationalism with an acknowledged need for western capital and expertise.

In January, he won Russia's first international mining tender – to develop the giant Udokan copper deposit in eastern Siberia – in alliance with a Hong Kong businessman called Mr Eddie Wong, and using advice from Fluor Daniel, the San Francisco-based mining consultancy.

"We need technical experience and management skills from the west. We cannot invent a business culture by ourselves in Russia," says Mr Chuguyevsky, a 34-year-old rouble billionaire, who has so far made his money from the get-rich-quick trading and export operations of most Russian entrepreneurs. He claims the only reason the tender was won by the Udokan Mining Company, in which he holds 35 per cent, was because he had studied the project for three years compared to the six months available to western giants like Australia's BHP and Britain's RTZ – "otherwise I cannot compete with [a company such as] BHP," he says.

Another trump-card in enlisting sympathy from the authorities was his alliance with a dozen industrial plants, which have traditionally depended on defence orders that have now dried up, as suppliers of machinery for the $1bn (£600m) project. The government has been unable to provide much financial assistance to companies such as Uralmash, the engineering giant being privatised, so was naturally attracted to the idea of helping them help themselves.

But since his project was approved by the tender committee, Mr Chuguyevsky has begun negotiating changes that would give him and Russian partners sole control by buying out Mr Wong's 45 per cent stake. Mr Chuguyevsky also wants to cancel a plan, devised by Mr Wong to help finance the deposit's development by selling much of the copper concentrate to China for smelting there. Under pressure from the Russian government, he now says that the copper concentrate should be smelted in Russia, rather than be at the mercy of a Chinese buyer.

Finally, it is far from clear that he will appoint Fluor Daniel project manager as initially expected. He has approached BHP, as a potential candidate for that role. Dismissing Mr Wong's arrangements for Allen & Co, a private US investment bank, to raise some of the finance, Mr Chuguyevsky wants to involve other banks and multilateral organisations like the World Bank's International Finance Corporation which have been hard-pressed to find viable projects in Russia's difficult environment climate.

ANOTHER problem in opening the door to Russia's mining wealth has been innate Russian reluctance to let go of rich resources to foreigners and a tendency to move the goal posts in the name of reform.

A pioneer in trying to establish a foreign foothold in Russia's previously closed gold industry has been a small Australian company called Star Technology System. But Star has become caught in a time warp, allying itself with a local Siberian gold producer to develop the country's biggest hard rock gold deposit known as Sukhoi Log (Dry Gulch) before the new mining legislation appeared, and now having to adapt to its requirements. While it is supported by the State Property Committee, whose main role is privatising state-owned enterprises, the project has run into opposition from other parts of the administration. Not surprisingly, Sukhoi Log is being eyed hungrily by the likes of Mr Chuguyevsky *(pictured below)*, who may try to use the same sort of formula which brought him Udokan: a plea on behalf of Russian entrepreneurship and Russian industry, and later, maybe enlisting a big foreign company to help him.

The country's diamond mining industry has been somewhat insulated from the fray, although Ashton Mining of Australia has signed a preliminary agreement to mine diamonds in the western Russian region of Karelia.

But the bulk of Russia's present diamond mining and marketing activities are run by a new joint stock company called Almazy Rossii-Sakha (ARS), with shares and management split between federal authorities and Yakutia, the eastern region which mines 99 per cent of Russian diamonds.

Spawned by the old state monopoly combining diamonds and gold, state-controlled ARS is closed to outside investors, with shareholders including the fantastically fortunate staff with 23 per cent, and 5 per cent held by the Russian army's pension fund. ARS is also responsible for managing a five-year Soviet-era agreement expiring in 1995 to channel 95 per cent of rough diamond exports through De Beers' Central Selling Organisation.

But despite its closed and monopolistic nature, ARS has been promoting market-orientated changes of its own. These involve dispensing with the State Committee for Precious Stones and Metals' wasteful system of distributing diamonds to Russia's diamond-cutting factories.

ARS is also considering overhauling the methods used to check the prices paid by De Beers for Russian diamonds under an agreement which has been contested by some economic nationalists as contrary to Russian interests. But rather than pushing for the right to sell more than five per cent independently – as advocated by the State Committee – ARS favours putting all diamond exports through the CSO and then monitoring those directly. With time, it would also like to get rid of the State Committee, an organisation with an unclear role to play in emerging market conditions.

In the meantime, ARS has provided one sort of solution to the chronic conflict between federal and local authorities over how to share Russia's mineral wealth. This involves, quite simply, buying off both local authorities and workers with a huge piece of the cake.

A miner plays an accordion among pro-Yeltsin supporters gathered in Moscow's Red Square. There is a fierce conflict between federal and local authorities over how to share Russia's mineral wealth

Irina Hakamada: one of a new class of entrepreneurs

Andrei Chuguyevsky: already a rouble billionaire at 34

The creative energies of the new entrepreneurs need to be carefully channelled

The worst of both worlds

THE GENERAL secretary of Russia's tiny but noisy economic Freedom Party, Ms Irina Hakamada, 38, wears tight mini-skirts and drives a Toyota. The Soviet-born daughter of a Japanese Communist, she is a standard-bearer of Russia's new class of entrepreneurs.

Taking tha title used by Soviet Communist party leaders who ruled the country for 70 years was originally intended as a joke. But the class she represents is extremely serious about asserting itself – even if many of its members are stashing away money and assets abroad just in case things do not work out in Russia.

Having previously exercised influence on the political class indirectly, many new rich will be standing for election at parliamentary elections brought forward to the end of this year as a result of President Boris Yeltsin's referendum victory.

Having begun to accumulate alternative sources of influence such as newspapers and television time, all the new class needs is political legitimacy.

Some potential national leaders are already emerging, including Mr Yegor Gaidar, the former prime minister who launched the radical economic reforms which have allowed the new class to flourish. As a mark of the gratitude and respect which he commands, he was recently chosen to head the Association of Privatised and Private Businesses.

Although it is not clear whether he will stand for parliament, one thing is clear. Money will matter in the forthcoming elections in a way that Communist party connections mattered in the last elections, held in 1990, when the Soviet Union was still a monolithic state run by Communists.

Ms Hakamada says she will be among the new candidates, together with the party's co-chairman, Mr Konstantin Borovol, the founder of one of Russia's biggest commodity exchanges, and Mr Syvatoslav Fyodorov, a millionaire eye-surgeon. She plans a western-style electoral campaign with a simple message: Russia's entrepreneurs need genuine economic freedom to benefit both the individual and society.

Mr Gaidar's liberalisation of most prices and trade last year both legalised and multiplied entrepreneurs who had previously operated in conditions of semi-illegality. But, for many of their compatriots, this has translated into a living nightmare of capitalism as portrayed by Communist party propaganda in the old days.

Moscow's roads are busy with flashy foreign cars, driven by the men in dark glasses whose profession is invariably "trade" or "banking." The streets are also full of new shops, restaurants and kiosks selling imported luxuries which most of the population cannot afford. The inequalities of capitalism are there for all to see, with its benefits for the people still blurry.

Indeed, the interruption of the liberalisation programme, under conservative pressure, has now given Russia the worst of both worlds. Price distortions, soaring inflation, and a tumbling Russian currency mean it is far more profitabla to export Russia's natural wealth than to invest money inside the country. With GNP getting smaller, a growing share of a shrinking pie for a small group of people is potentially explosive.

Also enriching themselves are corrupt bureaucrats who retain control of large areas of economic decision-making, together with some managers of state-owned enterprises who are siphoning off profitable parts of businesses for themselves through so-called "nomenklatura privatisation."

Russia's new rich rest in former Communist party establishment sanatoria, and live in former Soviet leaders' country homes – at least until they have time to build their own, grander *dachas*. They flaunt their wealth now rather than hide it as before.

No wonder the results of last month's referendum surprised most of the country's political class, showing 52 per cent support for unpopular, divisive radical economic reforms. But the small margin of support also shows that while most Russian people prefer moving forward to moving backwards, a lot will have to be done to prove their instincts are right.

Russia already has a few wealthy entrepreneurs who are beginning to think long-term. One example is Mr Andrei Chuguyevsky, 34, who won a tender to exploit Russia's huge Udokan copper deposit *(see report above)*, and says he wants to turn to the "real economy" as opposed to the export and trading deals which have made him a rouble billionaire.

But he believes it remains an open question as to whether Russia will advance along the path of a mafia state, uniting the interests of officials and shrewd businessmen feeding off a distorted economy, or towards an open market economy.

For the latter to take place, it is up to the government to devise policies reversing a situation where it is only logical for entrepreneurs to act as most do now.

Leyla Boulton